



General Assembly

Distr.: General
4 October 2001

Original: English

Fifty-sixth session

Agenda item 120

Financial reports and audited financial statements and reports of the Board of Auditors

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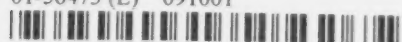
Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has, in accordance with financial regulation 12.11, considered the report of the Board of Auditors on the audited financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2000 (A/56/5/Add.5). The Committee also took up the second report of the Secretary-General on the implementation of the recommendations of the Board of Auditors on the accounts of the United Nations (A/56/66) and its funds and programmes (A/56/66/Add.1) for the biennium ended 31 December 1999. In addition, the Committee had before it the report of the Board of Auditors on the implementation of its recommendations relating to the biennium 1998-1999 (see A/56/132), which was submitted in accordance with paragraph 5 of General Assembly resolution 52/212 B.

2. During its consideration of these reports, the Committee met with the Audit Operations Committee of the Board of Auditors. In accordance with its recommendation contained in paragraph 4 of its previous report (A/55/487), the Committee also met with a representative of a former Board member to consider the report prepared by him before the end of his term.

3. The Committee recalls its previous recommendation that the operations of the Office of the United Nations High Commissioner for Refugees (UNHCR) be audited biennially, and that UNHCR and the Board of Auditors discuss the modalities for planning for biennial audit; the Committee awaits the outcome of the discussion. In this connection, the Committee reiterates that a biennial audit would give UNHCR more time to implement the recommendations of the Board and would also facilitate the timely submission of audit certificates by implementing partners (see A/53/513, paras. 87 and 88).

4. The Committee notes the progress achieved by UNHCR in reducing by \$186.5 million the level of current and prior year expenditure for which subproject monitoring reports had not been received, and trusts that further efforts will be made by UNHCR with regard to a total of \$55.5 million which remains outstanding in advances to implementing partners, covering the years 1994 to 2000. The Committee also notes that UNHCR has succeeded in securing independent audit certificates to cover 79 per cent of expenditures incurred by implementing partners during 1999, as compared to 47.6 per cent for the year 1995.



5. The Committee notes with concern that the Board of Auditors has nevertheless qualified its audit opinion on the financial statements of UNHCR based on a limitation of scope in respect of a total of \$43.5 million of implementing partner expenditure. This limitation represents:

(a) The sum of \$8.5 million of outstanding advances to implementing partners in respect of 2000, for which subproject monitoring reports had not been received as at June 2001;

(b) The sum of \$32 million of year 2000 expenditures, for which the Board identified serious inadequacies in the verification and validation procedures;

(c) The sum of \$3 million, for which one country denied UNHCR access to the accounting records of implementing partners.

6. The Committee points out, in this connection, that the issue of denial of access to the accounting records of implementing partners, on which the Committee had commented in previous reports (see, for example A/53/513, paras. 95 and 96), continues to be a very serious problem with a potential for fraud. The problem should be thoroughly examined by the administration of UNHCR in order to determine whether the failure to provide access to accounting records is due to the lack of capacity of implementing partners or rather reflects the lack of will to cooperate with UNHCR. Should the latter be the case, the Committee requests that the issue be addressed at the highest level of UNHCR administration and, if necessary, be brought to the attention of the Secretary-General.

7. The findings of the Board with regard to the subproject monitoring reports are contained in paragraphs 22 to 31 of its report (A/56/5/Add.5). The Board found, for example, that officers responsible for field monitoring generally provided no evidence of a regular or systematic check on implementing partner expenditure. Moreover, the Board found that some programme or finance officers did not see approval of expenditure as their responsibility or did not have the time to carry out inspections. **Taking into account the apparent lack of clear understanding on the part of some UNHCR staff of their responsibilities, the Committee expects the administration of UNHCR to address the issue through increased training of staff**

and a more stringent application of accountability requirements.

8. The Committee notes with concern the findings of the Board with regard to the quality of the certificates provided to UNHCR in the year 1999 (see A/56/5/Add.5, paras. 35-37). For example, the Board examined 91 certificates covering expenditures of \$241 million and found the following irregularities in respect of certificates covering a total of \$112 million: (a) project auditors had to qualify their audit opinion in respect of expenditure of \$18 million on the grounds of insufficient evidence; (b) expenditure totalling \$17 million was certified by government accountants rather than by independent auditors; and (c) 25 certificates covering \$77 million did not clearly state that funds provided by UNHCR were used in accordance with agreements. On the basis of these findings, the Board concluded that limited assurance could be deduced as to the maintenance of adequate accounting systems and financial records by implementing partners in 2000. **The Committee requests, therefore, that the administration of UNHCR undertake all the necessary measures to improve performance of those country offices where the Board found significant gaps in the extent and quality of audit certificates; the related information should be provided to the Committee in March 2002.**

9. The Board's findings on the Integrated System Project of UNHCR are contained in paragraphs 57 to 92 of its report (A/56/5/Add.5). The Committee is concerned that after some three years and expenditure of \$8.7 million against a total budget of \$34 million, the Project remains non-operational. **The Committee requests the administration of UNHCR to take immediate steps to address the findings by the Board and to report to the Committee not later than autumn 2002 on actions taken. The Committee also reiterates its request that UNHCR present comprehensive data on the implementation of all information technology projects, including relevant costs (see A/55/487, para. 41).**

10. The Committee notes the Board's finding that UNHCR has yet to establish a reliable system for establishing accurate information on the size and characteristics of the refugee population.

Implementation of the recommendations of the Board of Auditors

11. The Committee notes that some progress has been made in implementing the recommendations of the Board in respect of 15 organizations covered in its report on the implementation of its recommendations relating to the biennium 1998-1999: of the 208 recommendations by the Board, 115 recommendations have been fully implemented, 72 are under implementation, 1 has not been implemented and in respect of 5 recommendations the organizations have not been able to implement the recommendations since they were overtaken by events. **The Committee welcomes the fact that six entities (the United Nations, the United Nations University, the United Nations Children's Fund, the United Nations Institute for Training and Research, the United Nations International Drug Control Programme and the United Nations Joint Staff Pension Fund) have substantially improved their implementation rate compared with the biennium 1996-1997 (see A/56/132, para. 9).**

12. The Committee observes that the information contained in paragraphs 10 to 25 of the Board's report (see A/56/132) is also reflected, to a large extent, in the reports of the Secretary-General on the same subject (A/56/66 and Add.1). **The Committee requests, therefore, that the Board concentrate, in its reports on the implementation of its recommendations, on indicating the extent to which such recommendations have been implemented and on their impact. With regard to the Secretary-General's reports on the implementation of the recommendations of the Board, the Committee recommends that those reports focus less on describing how the administration intends to implement the Board's recommendations and instead indicate briefly the actions taken and results achieved.**



General Assembly

Distr.: General
4 October 2001

Original: English

Fifty-sixth session

Agenda items 121 and 126

**Review of the efficiency of the administrative and
financial functioning of the United Nations**

Human resources management

Proposed regulations governing the status, basic rights and duties of officials other than Secretariat officials and experts on mission and regulations governing the status, basic rights and duties of the Secretary-General

Report of the Secretary-General

1. In paragraph 20 of his report to the General Assembly at its fifty-fifth session (A/55/928), the Secretary-General indicated that he was expecting to receive comments from the group of special rapporteurs of the Commission on Human Rights on the proposed regulations governing the status, basic rights and duties of officials other than Secretariat officials and experts on mission (A/54/695).

2. Subsequent to the issuance of the above-mentioned report, comments were received from the eighth meeting of special rapporteurs, special representatives, independent experts and chairpersons of working groups of the Commission on Human Rights. Those comments are quoted below, followed by the Secretary-General's observations with respect to the comments.

"Comment of the eighth meeting of special rapporteurs, special representatives, independent experts and chairpersons of working groups of the Commission on Human Rights on the proposed regulations governing the status, basic rights and duties of officials other than Secretariat officials and experts on mission

"1. The meeting considers that, central to the function of mandate holders, is the unique status that they are required to have by virtue of their independence, a status reinforced by the unpaid character of their work. This independence deserves to be reflected explicitly in the commentary. This could be achieved by adding to the commentary to draft regulation 2 (a) language that would confirm that the special circumstances of mandate holders require clear recognition of and respect for their independence and that this notion should be reflected in the interpretation and application of the regulations. The meeting invites the Secretary-General to insert the relevant language.



"2. In order to avoid any interpretation of draft regulation 2 (d) and 2 (f) as limiting the standard practice of mandate holders in their public utterances, the meeting invites the Secretary-General to confirm the position taken in the observations attached to the letter dated 8 February 1999 from the Legal Counsel addressed to the meeting's then Rapporteur, Maurice Copithorne, namely:

'...

'12. As indicated in the commentary to draft regulation 2 (f), the text of this regulation flows from, *inter alia*, the idea that officials and experts on mission must regulate their conduct with the interest of the Organization only in view. Consequently, the prohibition of disclosure of official information without authorization must apply to all officials and experts on mission without exception. However, the commentary makes it clear that the prohibition does not apply if such disclosure is specifically authorized or is [made] in the normal course of duties of the official or expert on mission. Accordingly, if a special rapporteur is required, as part of his or her official duties, to disclose official information to third parties, that would not be a breach of this regulation.

'13. In paragraph 8 [of the observations], it has been established that the Commission on Human Rights has allowed and even encouraged special rapporteurs to publicize their mandates and activities. As it is in the normal course of their duties to disclose information about investigations and other activities falling within or arising from their mandates, such behaviour would not be prohibited by either draft regulation 2 (d) or 2 (f).'

"3. Similarly, in order to avoid any unduly restrictive interpretation of draft regulation 2 (j), concerning compliance with local legal obligations, the meeting invites the Secretary-General to confirm the position taken by the Legal Counsel in the same observations, namely:

'...

'17. This regulation concerns private legal obligations of officials and experts on mission and is intended to ensure, in addition to draft regulation 1 (e), that they will not abuse the privileges and immunities accorded to them in the interest of the United Nations because of their official status with the Organization. This regulation does not interfere with the right and duty of officials and experts on mission properly to discharge their official functions.

'18. Moreover, since experts on mission, including special rapporteurs, are immune from personal arrest or detention and from legal process of every kind in respect of words spoken or written and acts done by them in the course of the performance of their missions, pursuant to sections 22 (a) and (b) of article VI of the General Convention [Convention on the Privileges and Immunities of the United Nations], special rapporteurs are adequately protected from any potential legal action or harassment in connection with their official words or acts.'

3. In regard to paragraph 1 of the comments of the eighth meeting quoted above, the Secretary-General notes that, in paragraphs 4 and 5 of the observations attached to the letter of the Legal Counsel dated 8 February 1999, to which the eighth meeting referred to in the comments quoted above, the Legal Counsel indicated that the independence required of these officials and experts is addressed and implied in draft regulations other than draft regulation 2 (a) (e.g., see draft regulations 1 (b), 2 (b), 2 (c) and 2 (d)). In addition, in a letter dated 26 April 2001, in which certain clarifications were provided to the chairperson of the group of special rapporteurs on the draft regulations (referred to in A/55/928, para. 20), the Legal Counsel indicated that the draft regulations have been elaborated taking into account the "independence" required of officials and experts on mission, with the view of ensuring such independence within the context of their appointment by various parts of the Organization. Nevertheless, in view of paragraph 1 of the comments of the eighth meeting quoted above, the Secretary-General would be prepared to include the following clarification in the appropriate section of the commentary:

"It should also be noted that the Regulations and the Commentary have been elaborated taking into account the independence required of officials and experts on mission."

4. With respect to paragraphs 2 and 3 of the comments of the eighth meeting quoted above, the Secretary-General wishes to confirm the positions set out in paragraphs 12, 13, 17 and 18 of the observations attached to the Legal Counsel's letter dated 8 February 1999.

Conclusion

5. Based on a review of the comments received from the eighth meeting, the Secretary-General would recommend consideration by the General Assembly of the regulations proposed in his previous report (A/54/695), as adjusted in his subsequent report (A/55/928), with the following additional clarification appearing as a new paragraph 4 of the commentary to proposed regulation 1 (a):

"It should also be noted that the Regulations and the Commentary have been elaborated taking into account the independence required of officials and experts on mission."

6. The draft regulations governing the status, basic rights and duties of officials other than Secretariat officials and experts on mission, together with explanatory commentary, as previously issued in annex II to document A/54/695, adjusted in annex II to document A/55/928, and further adjusted as proposed above, are set out in the annex to the present report; the proposed adjustments are shown in bold.*

* The draft regulations governing the status, basic rights and duties of officials other than Secretariat officials and experts on mission, previously issued in document A/54/695, annex I, and adjusted in document A/55/928, annex I, are not reproduced in the present report since the additional clarification proposed in the present report relates only to the commentary, and not to the draft regulations.

Annex

Draft regulations governing the status, basic rights and duties of officials other than Secretariat officials and experts on mission, together with explanatory commentary*

Draft regulation 1 Status

Regulation 1 (a)

The responsibilities of officials other than Secretariat officials (hereinafter referred to as "officials") and of experts on mission are not national but exclusively international.

Commentary

1. The United Nations has persons who perform services for it on a substantially full-time basis but who are not staff members. These persons have consistently been referred to by the General Assembly as "officials other than Secretariat officials". In addition, pursuant to article V, section 17, of the Convention on the Privileges and Immunities of the United Nations^a of 13 February 1946 (hereinafter referred to as the "General Convention"), the Secretary-General has specified and submitted to the Assembly proposals that a number of persons who occupy certain positions within the Organization be accorded the privileges and immunities under articles V and VII of the General Convention, even though they are not staff members. These persons have also been referred to as officials other than Secretariat officials.

2. The United Nations also has experts who perform assignments for the Organization. Article VI of the General Convention provides that experts (other than officials coming within the scope of article V) shall be accorded privileges and immunities necessary to enable them to carry out their missions for the United Nations and specifies a number of those privileges and immunities. These experts have been referred to as "experts on mission".

3. The Regulations and the Commentary, as applied to the Chairman and the Vice-Chairman of the International Civil Service Commission, the Inspectors of the Joint Inspection Unit, and to other officials and experts who perform functions in respect of the common system, in accordance with the statute of the International Civil Service Commission or that of the Joint Inspection Unit, respectively, or other mandates approved by the General Assembly, should be construed in the light of those functions and mandates. References to the United Nations or the United Nations Organization in the context of these Regulations and the Commentary should be applied, bearing in mind that the functions of those officials and experts are related to the common system.

4. It should also be noted that the Regulations and the Commentary have been elaborated taking into account the independence required of officials and experts on mission.

* Previously issued in A/54/695, annex II, and adjusted in A/55/928, annex II.

5. Draft regulation 1 (a) is similar to the second sentence of staff regulation 1.1 (a).^b

* * *

Regulation 1 (b)

Officials **and experts on mission** shall make the following written declaration witnessed by the Secretary-General or an authorized representative:

"I solemnly declare and promise to exercise in all loyalty, discretion and conscience the functions entrusted to me by the United Nations, to discharge these functions and regulate my conduct with the interests of the United Nations only in view, and not to seek or accept instructions in regard to the performance of my duties from any Government or other source external to the Organization."

Commentary

Draft regulation 1 (b), which is similar to staff regulation 1.1 (b), contains the declaration of office of officials and experts on mission.

* * *

Regulation 1 (c)

The Secretary-General shall seek to ensure that the rights and duties of officials and experts on mission, as set out in the General Convention, are respected. The Secretary-General shall also seek to ensure, having regard to the circumstances, that all necessary safety and security arrangements are made for officials and experts on mission carrying out the responsibilities entrusted to them.

Commentary

1. The first sentence of draft regulation 1 (c), which is similar to staff regulation 1.1 (c), codifies an implicit duty that falls upon the Secretary-General, namely, to seek to ensure that the rights and duties of officials and experts on mission as set out in the General Convention are respected (as such rights are granted by Governments, the Secretary-General can only "seek to ensure" that they are respected). The protection accorded to officials and experts on mission under this provision relates to their official acts and thus does not lapse upon cessation of their service for the Organization, or, if they are part-time, on days when they are not in service.

2. The second sentence of draft regulation 1 (c), which reproduces the essence of the second sentence of staff regulation 1.2 (c), sets forth the responsibility of the Secretary-General to seek to ensure the safety of officials and experts on mission.

* * *

Regulation 1 (d)

Experts on mission will receive a copy of the present Regulations Governing the Status, Basic Rights and Duties of Officials other than Secretariat Officials and Experts on Mission (hereinafter referred to as the "Regulations") when they receive documentation from the United Nations relating to their mission and will be

required to acknowledge receipt of the Regulations. Officials will receive a copy of the Regulations at an appropriate opportunity.

Commentary

1. Experts on mission retained by the Secretariat sign a special services agreement or receive a letter or other documentation indicating the scope of their mission for the Organization. The special services agreement or other documentation will incorporate the Regulations by reference, and experts will be required to acknowledge that they will abide by the Regulations.
2. At times, legislative bodies entrust tasks to individuals to perform assignments for those bodies (for example, members and special rapporteurs of the International Law Commission and other bodies). Those individuals have the status of experts on mission. Although their appointments may have been concluded without the signature of any document of appointment, their attention will be drawn to the Regulations when they receive documentation from the Secretariat relating to their functions and/or their assignment. That documentation will include a copy of the Regulations explaining that they were adopted by the General Assembly and thus constitute part of the conditions of those individuals' assignment for the United Nations.
3. Officials will receive a copy of the Regulations at an appropriate time, for example, when they make the declaration of office (see draft regulation 1 (b)).

* * *

Regulation 1 (e)

The privileges and immunities enjoyed by the United Nations by virtue of Article 105 of its Charter are conferred in the interests of the Organization. These privileges and immunities furnish no excuse to those who are covered by them to fail to observe the laws and police regulations of the State in which they are located nor do they furnish an excuse for non-performance of their private obligations. In any case where an issue arises regarding the application of these privileges and immunities, an official or an expert on mission shall immediately report the matter to the Secretary-General, who alone may decide whether such privileges and immunities exist and whether they shall be waived, in accordance with the relevant instruments.

Commentary

1. Draft regulation 1 (e), which deals with privileges and immunities, is similar to staff regulation 1.1 (f) (see paras. 32, 49, 54 and 55 of the report on standards of conduct in the International Civil Service 1954,⁵ which was prepared by the International Civil Service Advisory Board (hereinafter referred to as the "ICSAB report")).
2. Draft regulation 2 (j) specifies the obligations on those who are covered by such privileges and immunities to honour their private legal obligations.
3. Pursuant to article V, section 20, and article VI, section 23, of the General Convention, it is only the Secretary-General who has the right to waive the privileges and immunities accorded to officials and experts on mission. In deciding

whether such privileges and immunities exist and whether they should be waived, the Secretary-General may take into account the views of the legislative body that appointed the officials or experts on mission.

* * *

Draft regulation 2 Conduct

Regulation 2 (a)

Officials and experts on mission shall uphold the highest standards of efficiency, competence and integrity. The concept of integrity includes, but is not limited to, probity, impartiality, fairness, honesty and truthfulness in all matters affecting their work and status.

Commentary

1. Draft regulation 2 (a), which describes basic values expected of officials and experts on mission, is similar to staff regulation 1.2 (b).
2. The first sentence of draft regulation 2 (a) is derived from Article 101, paragraph 3, of the Charter of the United Nations by virtue of affirmatively placing upon officials and experts on mission the obligation to uphold the highest standards of efficiency, competence and integrity. As pointed out in paragraph 4 of the ICSAB report, the concept of integrity includes "honesty, truthfulness, fidelity, probity and freedom from corrupting influences".

* * *

Regulation 2 (b)

In the performance of their duties, officials and experts on mission shall neither seek nor accept instructions from any Government or from any other source external to the Organization.

Commentary

Draft regulation 2 (b), which is similar to staff regulation 1.2 (d), flows from the first sentence of Article 100, paragraph 1, of the Charter of the United Nations (see ICSAB report, paras. 7, 18 and 31).

* * *

Regulation 2 (c)

Officials and experts on mission shall discharge their functions and regulate their conduct with the interests of the Organization only in view. Loyalty to the aims, principles and purposes of the United Nations, as set forth in its Charter, is a fundamental obligation of all individuals covered by the present Regulations.

Commentary

1. Draft regulation 2 (c) in substance contains the same obligations as are contained in staff regulation 1.2 (e) applicable to staff. The first sentence of

regulation 2 (c) sets forth an idea that is contained in staff regulation 1.1 (a) and in staff regulation 1.1 (b), which contains the written declaration of office, that is to say, the idea that staff must regulate their conduct with the interests of the Organization only in view (see ICSAB report, para. 4).

2. The second sentence of draft regulation 2 (c) focuses on the concept of loyalty to the aims, principles and purposes of the Organization as set forth in the Charter of the United Nations (which is alluded to in the declaration contained in draft regulation 1 (b)) (ibid., paras. 5, 6 and 21).

* * *

Regulation 2 (d)

While the personal views and convictions of officials and experts on mission, including their political and religious convictions, remain inviolable, they shall ensure that those views and convictions do not adversely affect their official duties or the interests of the United Nations. Officials and experts on mission shall conduct themselves at all times in a manner befitting their status. They shall not engage in any activity that is incompatible with the proper discharge of their duties with the United Nations. They shall avoid any action and, in particular, any kind of public pronouncement that may adversely reflect on their status, or on the integrity, independence and impartiality that are required by that status.

Commentary

1. Draft regulation 2 (d) is similar to staff regulation 1.2 (f). The core idea of conduct befitting an international civil servant was considered by the International Civil Service Advisory Board in 1954. The Advisory Board remarked that "high standards of conduct are best attained by a universal understanding among staff members of the relation between their conduct and the success of the international organizations, and by the development of a strong tradition among men and women who are jealous of the reputation of the organizations that they serve and are anxious to safeguard it". (See ICSAB report, para. 2; also para. 4 on the integrity expected of international civil servants; paras. 5, 6 and 21 on loyalty; paras. 7 and 18 on independence; and paras. 8 and 48 on impartiality.)

2. In respect of the last sentence of the draft regulation, it would be for the Organization to characterize an action or pronouncement as adversely reflecting on the status of an official or an expert on mission.

* * *

Regulation 2 (e)

Officials and experts on mission shall not use their office or knowledge gained from their official functions for private gain, financial or otherwise, or for the gain of any third party, including family, friends and those they favour. Nor shall they use their office for personal reasons to prejudice the positions of those they do not favour.

Commentary

1. Draft regulation 2 (e), which is similar to staff regulation 1.2 (g), codifies principles set out in the ICSAB report (see paras. 17, 28 and 42). The use of one's office for personal gain is clearly unacceptable. This includes not only conducting a business from a United Nations office but also such activities as using United Nations facilities for a business, using the United Nations name, logo or address for a business and approving a contract for a family business without disclosure. Draft regulation 2 (e) also reflects the principle set out in staff regulation 1.2 (g) that a staff member shall not use information that has not been made public for the private advantage of the staff member or of any third party.
2. The draft regulation, for clarity, makes specific reference to prohibiting an official or expert on mission from so favouring a third party, including family or friends, as to enable that third party to profit from the position of the official or expert on mission or from the exercise of his or her functions. The term "friends" is broad and seeks to encompass not only friends as normally understood, but also relationships that are not recognized by the United Nations as creating a dependency.
3. The draft regulation also prohibits the use of office or knowledge gained from that office for personal reasons to prejudice or harm third parties.

* * *

Regulation 2 (f)

Officials and experts on mission shall exercise the utmost discretion in regard to all matters of official business. Officials and experts on mission shall not communicate to any Government, entity, person or any other source, any information known to them by reason of their official position that they know or ought to have known has not been made public, except as appropriate in the normal course of their duties or by authorization of the Secretary-General. If they are not appointed by the Secretary-General, such authorization shall be conferred by the body that appointed them. These obligations do not cease upon the cessation of their official functions.

Commentary

1. Draft regulation 2 (f), which is similar to staff regulation 1.2 (i), reflects the principle that official information may not be used for private purposes, except with authorization. This flows from the idea that officials and experts on mission are obligated to regulate their conduct with the interests of the Organization only in view (see ICSAB report, para. 4) and also from the requirements of draft regulation 2 (e). It follows that permission must be obtained for disclosure to third parties of information that has not been made public, unless such disclosure is specifically authorized or is in the normal course of duties of the official or expert on mission. Authorization of the Secretary-General is not required for officials and experts on mission who have not been appointed by the Secretary-General. Those officials and experts on mission would require the authorization of the body that had appointed them if the communication of the information was not a normal part of their duties.
2. The last sentence of the draft regulation provides that the obligations contained in the provision do not cease upon cessation of official functions. It may be difficult

to enforce such a provision, but, at the very least, if a former official or expert on mission ignored the obligations contained in this draft regulation, the official file of the former official or expert on mission could be noted so as to prevent his or her re-engagement.

* * *

Regulation 2 (g)

Officials and experts on mission may not accept any honour, decoration, favour, gift or remuneration from any Government or non-governmental source for activities carried out **during the course of their official functions** while in the service of the United Nations.

Commentary

To ensure that officials and experts are perceived as impartial, draft regulation 2 (g) prohibits the acceptance of any honour, decoration, favour, gift or remuneration from any Government or non-governmental source for activities carried out **during the course of their official functions** while in the service of the United Nations.

* * *

Regulation 2 (h)

Officials and experts on mission shall not be actively associated with the management of, or hold a financial interest in, any profit-making, business or other concern, if it were possible for them or the profit-making, business or other concern to benefit from such association or financial interest by reason of their position with the United Nations. Officials or experts on mission who are in such a situation shall either dispose of that financial interest or formally excuse themselves from participating with regard to any involvement in that matter that has given rise to the conflict-of-interest situation.

Commentary

1. The first sentence of draft regulation 2 (h) is similar to staff regulation 1.2 (m). The purpose of the provision is to put officials and experts on mission on notice that they cannot be actively associated with a profit-making, business or other concern, if either the concern or the official or expert on mission is to profit therefrom by reason of the association with the Organization. It will be for the Secretary-General or the appointing authority to judge whether a particular act has given rise to a conflict-of-interest situation.

2. The second sentence of draft regulation 2 (h) is similar to the second part of staff rule 101.2 (n) which deals with the consequences of a staff member's having a possible conflict-of-interest situation. In such cases, the official or expert on mission shall dispose of the interests or, if practicable, shall excuse himself or herself from dealing with the matter on behalf of the Organization.

3. Generally, experts on mission are appointed on a part-time basis, and it is therefore likely that they are engaged in other activities, including employment, when they are not performing services for the Organization. While there is no

question that experts on mission may be so engaged, they must ensure that those activities are not incompatible with their status or functions as experts on mission.

* * *

Regulation 2 (i)

Officials and experts on mission shall file financial disclosure statements if requested to do so by the Secretary-General. The Secretary-General shall prescribe the format and information to be provided in such statements and shall establish procedures for filing them. The financial disclosure statements will remain confidential and will be used, as prescribed by the Secretary-General, only in making determinations pursuant to regulation 2 (h).

Commentary

Draft regulation 2 (i) is similar to, but more general than, staff regulation 1.2 (n), which requires all staff at the assistant secretary-general level and above to submit financial disclosure statements upon appointment and at intervals as prescribed by the Secretary-General, in respect of themselves and their dependent children, including any substantial transfers of assets and property to spouses and dependent children from the staff member or from any other source that might constitute a conflict of interest. This requirement is designed to minimize the risk of a perception of officials and experts on mission as using their position for personal gain. The draft regulation enables the Secretary-General to require officials and experts on mission to file financial disclosure statements, which will remain confidential and will be used only in dealing with conflict-of-interest situations, for example, in assessing whether an official was in such a situation.

* * *

Regulation 2 (j)

Officials and experts on mission must comply with local laws and honour their private legal obligations, including, but not limited to, the obligation to honour orders of competent courts.

Commentary

1. Draft regulation 2 (j), which is similar to staff rule 101.2 (c), is really an amplification of draft regulation 1 (e) which provides that the privileges and immunities of the Organization afford no excuse for non-performance of private obligations (see ICSAB report, paras. 32, 54 and 55).
2. Draft regulation 2 (j) makes clear that private obligations must be honoured. It is the responsibility of those subject to the present Regulations, if they have a court order against them that they contest, to avail themselves of all means existing under the applicable national law to appeal the order and/or to secure relief from the obligation to comply with the order pending its appeal.

* * *

Regulation 2 (k)

Any form of discrimination or harassment, including sexual or gender harassment, as well as physical or verbal abuse, at the workplace or in connection with work, is prohibited.

Commentary

Draft regulation 2 (k), which is similar to staff rule 101.2 (d), reproduces the core of Secretary-General's bulletin ST/SGB/253 of 29 October 1992, which established United Nations policy on equal treatment of men and women in the Secretariat and also prohibited all forms of discrimination or harassment.

* * *

Regulation 2 (l)

Officials and experts on mission shall not intentionally misrepresent their functions, official title or the nature of their duties to Member States or to any entities or persons external to the United Nations.

Commentary

Draft regulation 2 (l) is similar to staff rule 101.2 (f) which prohibits the intentional misrepresentation of an official title or duties to outside parties, for example, by placing misleading titles on business cards. The use of the word "intentional" makes clear that this does not refer to careless or accidental acts.

* * *

Regulation 2 (m)

Officials and experts on mission participating, as part of their official functions, in activities organized by a Government, intergovernmental organization, non-governmental organization or other private source, may receive from the Government, intergovernmental organization, non-governmental organization or private source, accommodation and travel and subsistence allowance generally in line with those payable by the United Nations. In such cases, the travel and subsistence allowance that may otherwise be payable by the United Nations shall be reduced in the same manner as in respect of staff members of the Organization.

Commentary

1. Draft regulation 2 (m), which is similar to staff rule 101.2 (s), deals with the issue of participation at various official functions. Officials and experts on mission, who as part of their official functions participate in activities organized by a Government, intergovernmental organization, non-governmental organization or other private source, may receive from it accommodation and travel and subsistence allowance generally in line with those payable by the United Nations, and in such cases the allowances that may otherwise be payable by the United Nations shall be reduced in the same amount as in respect of staff members of the Organization. Such provisions are presently found in staff rule 107.15 (a).

2. It should be noted that accommodation and travel and subsistence allowance may be accepted only if doing so would be appropriate to the status of officials and

experts on mission and to the integrity, independence and impartiality that are required by that status. There may therefore be situations in which it would not be appropriate to accept those allowances from a Government, intergovernmental organization, non-governmental organization or other private source.

* * *

Draft regulation 3 Accountability

Officials and experts on mission are accountable to the United Nations for the proper discharge of their functions.

Commentary

Draft regulation 3, which is similar to staff regulation 1.3 (a), makes clear that officials and experts on mission are accountable for their actions. The method of accountability may vary. For officials appointed by the General Assembly, that accountability would be a matter for the Assembly. For experts on mission, it would be the Secretary-General or the appointing authority who could terminate an assignment or otherwise admonish the expert.

Notes

^a United Nations, *Treaty Series*, vol. I, No. 4, p. 15.

^b Hereinafter, staff regulations and rules refer to the provisions contained in article I of the Staff Regulations and chapter I of the 100 series of the Staff Rules which came into effect on 1 January 1999, pursuant to General Assembly resolution 52/252.

^c A/52/488 and Add.1.

**General Assembly
Security Council**Distr.: General
4 October 2001

Original: English

**General Assembly
Fifty-sixth session
Agenda item 166****Security Council
Fifty-sixth year****Measures to eliminate international terrorism****Letter dated 3 October 2001 from the Permanent Representative
of Israel to the United Nations addressed to the Secretary-General**

I wish to draw your attention to the latest incidents in the ongoing Palestinian campaign of terrorism directed against Israel.

At approximately 7.15 p.m. (local time) last night, two Palestinian terrorists, armed with hand grenades and automatic weapons, infiltrated the Israeli community of Alei Sinai, killing an Israeli couple — Liron Harpaz, age 19, and Assaf Itzhaki, age 21 — and wounding 15 others. The gunmen then barricaded themselves inside a house where they engaged in a heavy gun battle with Israeli forces for several hours before being subdued. The terrorist organization Hamas claimed responsibility for the attack.

Earlier yesterday, a car bomb exploded in the southern Jerusalem neighbourhood of Talpiot shortly after 9.00 a.m. (local time), wounding several pedestrians. The vehicle was in a small parking lot next to an apartment building and, in addition to a 12-kilogram bomb, was packed with a liquid propane gas tank, automatic rifle bullets, ball bearings, nails and other metal parts in order to magnify the lethal effect of the blast. Islamic Jihad claimed responsibility for the blast.

In yet another incident, Palestinian snipers opened fire today on several Jewish worshippers outside the Cave of Patriarchs, one of the most sacred sites to both Jews and Muslims, wounding four women. Those wounded, who had travelled to the site in celebration of the Jewish festival of Tabernacles, were evacuated to nearby hospitals.

These attacks are the latest incidents in the Palestinians' continuing terrorist war that has persisted without respite for more than a year. Previous attacks have been detailed in my letters dated 24 September 2001 (A/56/406-S/2001/907), 20 September 2001 (A/56/386-S/2001/892), 17 September 2001 (A/56/367-S/2001/875), 7 September 2001 (A/56/346-S/2001/858), 4 September 2001 (A/56/331-S/2001/840), 30 August 2001 (A/56/325-S/2001/834), 27 August 2001 (A/56/324-S/2001/825), 13 August 2001 (A/56/294-S/2001/787), 9 August 2001 (A/56/286-S/2001/780), 8 August 2001 (A/56/280-S/2001/775), 6 August 2001 (A/56/272-S/2001/768), 27 July 2001 (A/56/225-S/2001/743), 26 July 2001



(A/56/223-S/2001/737), 17 July 2001 (A/56/201-S/2001/706), 13 July 2001 (A/56/184-S/2001/696), 3 July 2001 (A/56/138-S/2001/662), 2 July 2001 (A/56/131-S/2001/656), 21 June 2001 (A/56/119-S/2001/619), 19 June 2001 (A/56/98-S/2001/611), 18 June 2001 (A/56/97-S/2001/604), 13 June 2001 (A/56/92-S/2001/585), 11 June 2001 (A/56/91-S/2001/580), 4 June 2001 (A/56/85-S/2001/555), 30 May 2001 (A/56/81-S/2001/540), 25 May 2001 (A/56/80-S/2001/524), 18 May 2001 (A/56/78-S/2001/506), 11 May 2001 (A/56/72-S/2001/473), 9 May 2001 (A/56/69-S/2001/459), 1 May 2001 (A/55/924-S/2001/435), 23 April 2001 (A/55/910-S/2001/396), 16 April 2001 (A/55/901-S/2001/364), 28 March 2001 (A/55/863-S/2001/291), 27 March 2001 (A/55/860-S/2001/280), 26 March 2001 (A/55/858-S/2001/278), 19 March 2001 (A/55/842-S/2001/244), 5 March 2001 (A/55/821-S/2001/193), 2 March 2001 (A/55/819-S/2001/187), 14 February 2001 (A/55/787-S/2001/137), 13 February 2001 (A/55/781-S/2001/132), 2 February 2001 (A/55/762-S/2001/103), 25 January 2001 (A/55/748-S/2001/81), 23 January 2001 (A/55/742-S/2001/71), 28 December 2000 (A/55/719-S/2000/1252), 22 November 2000 (A/55/641-S/2000/1114), 20 November 2000 (A/55/634-S/2000/1108) and 2 November 2000 (A/55/540-S/2000/1065).

The State of Israel holds the Palestinian leadership responsible for these attacks in light of its relentless incitement of the population to violence, its open collusion with declared terrorist groups, and its adamant refusal to take concrete measures against known terrorists. Since the outbreak of violence over a year ago, the Palestinian Authority has released convicted terrorists from prison, openly aided and abetted them in carrying out their murderous aggression, and granted them safe harbour in the territory under its control, all the while continuing to make fictitious claims of adhering to a ceasefire.

The latest of these empty declarations came last week following a meeting between Chairman Yasser Arafat and Israel's Minister of Foreign Affairs, Shimon Peres. Following Chairman Arafat's call for a ceasefire, Israel implemented several measures to ease conditions for the Palestinian people, pursuant to the understandings reached. Nevertheless, the attacks continued unabated.

Israel takes note of Chairman Arafat's condemnation of the attack at Alei Sinai, but reiterates that words are insufficient and must be bolstered by a concerted and discernible effort to calm the situation on the ground. As is apparent from events over the last several days, the Palestinian leadership's condemnations and calls for a ceasefire are hollow pronouncements, divorced from the reality on the street, designed to obscure continuing Palestinian support for terrorist operations.

Israel again calls on the Palestinian leadership to fulfil its repeated legal obligations to renounce the use of violence and terrorism and to control and punish those who continue to engage in such practices. Israel further calls on the international community to take steps to eradicate this terrorism and its supporters within the context of the global campaign against terrorism, and compel the Palestinian Authority to fulfil its obligations to prevent its territory from being used as a base for terror operations and return to the path of peaceful negotiations.

I should be grateful if you would arrange to have the text of the present letter circulated as a document of the fifty-sixth session of the General Assembly, under agenda item 166, and of the Security Council.

(Signed) Yehuda Lancry
Permanent Representative



General Assembly

Distr.: General
4 October 2001

Original: English

Fifty-sixth session

Agenda item 166

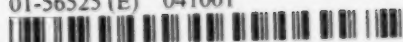
Measures to eliminate international terrorism

Letter dated 1 October 2001 from the Permanent Representative of Poland to the United Nations addressed to the Secretary-General

I have the honour to transmit herewith to you the statement issued by the Convening Group of the Community of Democracies on 19 September 2001 concerning the terrorist attacks in the United States (see annex). The following countries are members of the Convening Group: Chile, Czech Republic, India, Mali, Mexico, Poland, Portugal, Republic of Korea, South Africa and United States of America.

I would be grateful if the text of the statement could be circulated as a document of the fifty-sixth session of the General Assembly, under agenda item 166, entitled "Measures to eliminate international terrorism".

(Signed) Janusz Stańczyk
Ambassador
Permanent Representative



Annex to the letter dated 1 October 2001 from the Permanent Representative of Poland to the United Nations addressed to the Secretary-General

Statement by the Convening Group of the Community of Democracies

The Convening Group of the Community of Democracies condemns the unprecedented terrorist attacks last week at the World Trade Center, the Pentagon and in Pennsylvania that have shocked both the American people and the entire world. We express our solidarity with the families and friends of the thousands of innocent victims of this atrocity, as well as with all the citizens of the United States.

All nations have an obligation to join in firm reaction to this tragic loss of human life and destruction. This horrific crime was perpetrated on American soil but its effects touch all members of the international community, including most especially those nations who lost citizens in the attack. Democracy, as well as international peace, and security, has been greatly endangered. We are convinced that the initiators, organizers and perpetrators of this attack, as well as those who aided, supported, financed or harboured them, or assisted them in any manner, will be held accountable.

Criminal acts intended or calculated to provoke a state of terror in the general public or a group of persons for whatever purposes, are in any circumstances unjustifiable, whatever the considerations or factors that may be invoked to justify them.

Open, liberal and pluralistic societies are particularly vulnerable to terrorism, which targets democracies by choice and is a continuing threat to international peace and security. All nations must unite and put a definitive end to terrorism by all possible means. The Convening Group will do its best to contribute to this global united effort and to urge all States to cooperate to strengthen the international fight against terrorism wherever and by whomsoever committed.

On 27 June 2000 in Warsaw, Poland, over a hundred countries that gathered at a meeting "Towards a Community of Democracies" endorsed the Warsaw Declaration and Communiqué, in which they rejected all forms of hatred, violence and extremism and stressed the need to intensify cooperation to fight terrorism and other transnational challenges as follows:

"We resolve to strengthen cooperation to face transnational challenges to democracy, such as state-sponsored, cross-border and other forms of terrorism, ... and to do so in accordance with respect for the human rights of all persons and for the norms of international law."

Members of the Community of Democracies' Convening Group believe that continuing the work to strengthen democracy and to promote its core values and principles will help to create a stable international order and a climate of mutual understanding and tolerance that can effectively prevent violence and crimes against humanity.

New York, 19 September 2001



General Assembly

Distr.: General
4 October 2001

Original: English

Fifty-sixth session

Agenda item 119 (c)

**Human rights questions: human rights situations and
reports of special rapporteurs and representatives**

Question of the violation of human rights in the occupied Arab territories, including Palestine

Note by the Secretary-General*

The Secretary-General has the honour to transmit to the members of the General Assembly the interim report on violations of international humanitarian law and human rights in the Palestinian territories occupied since 1967, submitted by John Dugard, Special Rapporteur, pursuant to Commission on Human Rights resolutions 1993/2, section A, and 2001/7 and Economic and Social Council decision 2001/246.

* In accordance with General Assembly resolution 55/222, part III, paragraph 10, the present report is being submitted on 4 October 2001 so as to include as much updated information as possible.



Report of the Special Rapporteur of the Commission on Human Rights on the situation of human rights in the Palestinian territories occupied by Israel since 1967

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I. Introduction

1. The current Special Rapporteur, John Dugard (South Africa), was appointed in July 2001. In August 2001, the Special Rapporteur undertook a mission to the Occupied Palestinian Territories and Israel. Meetings were held with Palestinian and Israeli non-governmental organizations, international agencies in the region and members of the Palestinian Authority. Unfortunately, the Special Rapporteur was not able to meet with Israeli authorities as the Government of Israel made it clear at the outset of his appointment that it would not cooperate because of objections it has to the terms of his mandate. (This matter is discussed below.) On this mission, the Special Rapporteur met with interlocutors in the Gaza Strip, Jerusalem and the West Bank. The Special Rapporteur also visited Rafah, Beit Jala and Shu'afat to see the destruction of houses and property, and Jericho, to examine the manner in which the city had been closed by means of trenches cutting off access roads.
2. In February 2001, the Special Rapporteur visited the area as the chairperson of the Human Rights Inquiry Commission established pursuant to Commission on Human Rights resolution S-5/1 of 19 October 2000. That Inquiry Commission spent more time in the area, consulted more widely with informed persons and prepared a more comprehensive report (E/CN.4/2001/121) than the present report. The Human Rights Inquiry Commission criticized the excessive use of force employed by the Israeli Defense Force, the assassination of prominent Palestinians, the presence and expansion of settlements in the West Bank and Gaza, the activities of settlers and the closure of Palestinian areas, which has resulted in the widespread violation of economic and social rights. The Commission made a number of recommendations designed to bring an end to the military occupation of the Occupied Palestinian Territories and to establish a dispensation that meets the legitimate expectations of the Palestinian people concerning the realization of their right to self-determination and the genuine security concerns of the people of Israel.
3. The present report is based on the two visits made to the area in 2001, consultation and discussion with persons outside the area, the study of materials on the situation in the Occupied Palestinian Territories and wide media coverage.

II. The mandate of the Special Rapporteur

4. The mandate of the Special Rapporteur is to be found in two instruments. In resolution 1993/2, section A, the Commission on Human Rights decided to appoint a Special Rapporteur with the following mandate:

“(a) To investigate Israel’s violations of the principles and bases of international law, international humanitarian law and the Geneva Convention relative to the Protection of Civilian Persons in Time of War, of 12 August 1949, in the Palestinian territories occupied by Israel since 1967;

(b) To receive communications, to hear witnesses, and to use such modalities of procedure as he may deem necessary for his mandate;

(c) To report, with his conclusions and recommendations, to the Commission on Human Rights at its future sessions, until the end of the Israeli occupation of those territories.”

In resolution 2001/7, the Commission on Human Rights welcomed the recommendations contained in the reports of the High Commissioner for Human Rights (E/CN.4/2001/114) and the Human Rights Inquiry Commission (E/CN.4/2001/121), urged the Government of Israel to implement them and requested "the Special Rapporteur on the situation of human rights in the Palestinian territories occupied since 1967, acting as a monitoring mechanism, to follow up on the implementation of those recommendations and to submit reports thereon to the General Assembly at its fifty-sixth session and the Commission at its fifty-eighth session".

5. The mandate of the Special Rapporteur has been criticized by a number of States, particularly Israel, on the ground that it singles out Israel for special attention as a violator of human rights despite the fact that, since the implementation of the Oslo Accords (A/51/889-S/1997/357), and related agreements the control of the lives of over 90 per cent Palestinians has passed to the Palestinian Authority, which now has full control over the so-called "A" zones which include most Palestinian cities and towns. There would be substance in this criticism if the mandate of the Special Rapporteur were to investigate and report on Israel's violations of human rights in the Occupied Palestinian Territories without regard to the military occupation of those territories. This would be unfair as the Palestinian Authority does, for instance, have full jurisdiction over the administration of justice in the "A" zones and in most societies it is in this field that most violations of human rights occur. The mandate of the Special Rapporteur is not, however, to investigate human rights violations in the Occupied Palestinian Territories outside the context of military occupation. Resolution 1993/2, section A makes it clear that the Special Rapporteur is required to investigate violations of international humanitarian law committed by the occupying authority — *Israel* — until the end of the Israeli occupation of the Occupied Palestinian Territories. There is a close connection between international humanitarian law and human rights — a connection reaffirmed by the General Assembly in its resolution 2675 (XXV). It is therefore impossible to examine violations of international humanitarian law or general international law without reference to human rights norms, particularly in a situation of prolonged occupation of the kind that continues to prevail in the Occupied Palestinian Territories. The mandate therefore includes the investigation of human rights violations committed by Israel in the Occupied Palestinian Territories, but only in the context of military occupation. It is the prolonged military occupation of the Occupied Palestinian Territories which makes the mandate of the Special Rapporteur unusual and which distinguishes it from other special rapporteurships established by the Commission on Human Rights.

III. The occupation as the root cause of the conflict

6. In 1967, Israel occupied the West Bank and Gaza Strip. This occupation continues some 34 years later. Israel has invoked a number of arguments to support its legal claim that the Fourth Geneva Convention relative to the Protection of Civilian Persons in Time of War of 1949 is not applicable to the Palestinian territories occupied by Israel since 1987, including East Jerusalem. First, it argues that as the sovereignty of Jordan over the West Bank was questionable and Egypt never asserted sovereignty over Gaza, there was no sovereign Power at whose expense Israel occupied these territories. Consequently, although Israel is a party to

the Fourth Geneva Convention of 1949, it maintains that it is not bound by law to treat the territories as occupied territories within the meaning of the Fourth Geneva Convention. Secondly, it now argues that, even if the above argument is incorrect, that Israel can no longer be viewed as an occupying Power in respect of the "A" areas, accommodating the majority of the Palestinian population, because effective control in those areas has been handed over to the Palestinian Authority.

7. Neither of those arguments is tenable in law. The first, premised on a strained interpretation of article 2 of the Geneva Convention, fails to take account of the fact that the law of occupation is concerned with the interests of the population of an occupied territory rather than those of a displaced sovereign. The second, that Israel is no longer an occupying Power because it lacks effective control over "A" areas of the Occupied Palestinian Territories, is likewise unacceptable. The test for the application of the legal regime of occupation is not whether the occupying Power fails to exercise effective control over the territory, but whether it has the ability to exercise such power, a principle affirmed by the United States Military Tribunal at Nürnberg *In re List and others (The Hostages Case)* in 1948. The Oslo Accords leave Israel with ultimate legal control over all of the Occupied Palestinian Territories and the fact that for political reasons it has generally chosen not to exercise this control over the "A" zones, when it undoubtedly has the military capacity to do so (as illustrated by the Israeli military incursion into the "A" zone town of Beit Jala in August 2001), cannot relieve Israel of its responsibilities as an occupying Power.

8. The international community therefore rejects the argument that the Fourth Geneva Convention is inapplicable to the Occupied Palestinian Territories. Repeated resolutions of the Security Council and the General Assembly call upon Israel to comply with the prescriptions of the Convention and reject the purported annexation of East Jerusalem by Israel. For the international community, the Fourth Geneva Convention is the governing law.

9. Violence in the Occupied Palestinian Territories and Israel during the past several months has tended to obscure the fact that the root cause of the present conflict in the region is military occupation. Media reports are so concerned with the killing of Palestinian leaders by carefully directed missiles and with suicide bombings within Israel that the fact of occupation is overlooked. At times, the conflict is portrayed as if it were an international conflict between two States, employing different instruments of war, over "disputed territories". At other times, it is portrayed as an internal conflict with the rebels employing terror as a military strategy. The United States-brokered "Tenet ceasefire plan" (*Ha'aretz*, June 14, 2001), while a laudable attempt to end the violence in the region, nowhere mentions the military occupation in its concern for security and crisis management. It should not, however, be forgotten that Israel occupied the West Bank (including East Jerusalem) and the Gaza Strip by force in 1967; that this occupation should be brought to an end, as by its very nature military occupation is a temporary phenomenon pending an acceptable peace settlement; and that until the occupation is terminated, Israel, as the occupying Power, is obliged to comply with the Fourth Geneva Convention.

10. The present report focuses on military occupation as the root cause of the present conflict in the Occupied Palestinian Territories and Israel, as the cause of the violation of human rights and humanitarian law in the region. It aims to restore

occupation to centre stage. The violence in the region, whether caused by Israeli rocket-ships or Palestinian suicide bombers, is to be deplored and condemned. It is the immediate cause of the loss of life, of the violation of the right to life, that features pre-eminently in all human rights conventions. However, it is not the ultimate explanation for the violation of basic human rights in the region. This must be found in the military occupation of a people by an occupying power.

IV. Violence and loss of life

11. Since the start of the second intifada, in September 2000, over 530 Palestinians have been killed and over 15,000 injured. More than 150 Israelis have been killed. Most of those killed and injured have been civilians.

12. The first few months of the second intifada were characterized by violent clashes between Palestinian protesters, whose weapons were stones and molotov cocktails, and the Israel Defense Force. Most deaths and injuries were the result of gunfire from the Israel Defense Forces. In its report, the Human Rights Inquiry Commission found that the Israel Defense Forces had responded in a disproportionate manner to protesters and was guilty of the excessive use of force (E/CN.4/2001/121, paras. 44-52). Since then, the situation has changed radically as the Palestinians have moved from protest to armed force and the Israelis have responded by using heavier weaponry. Today, most Palestinian deaths have resulted from missile attacks directed at selected individuals suspected of terrorism, but which, inevitably, have also killed innocent bystanders, and from shootings carried out by soldiers and settlers, often after an exchange of gunfire. Israeli deaths have largely been caused by terrorist bombs in Israel itself and by gunfire directed at settlers on bypass roads or in the proximity of settlements.

13. In February 2001, the Human Rights Inquiry Commission had difficulty in categorizing the situation as a non-international armed conflict, defined by the Appeals Chambers of the International Criminal Tribunal for the Former Yugoslavia in the *Tadic* case as "protracted armed violence between governmental authorities and organized armed groups". Today, as a result of the frequent exchanges of gunfire between the Israel Defense Forces and Palestinian gunmen, it is probable that this threshold has been met, albeit on an irregular and sporadic basis. However, while the Israel Defense Forces are now engaged in both law enforcement and action in armed conflict, and may therefore be entitled to greater latitude in the exercise of its powers as an occupying force, it is not freed from all restraints under international humanitarian law and human rights law. It is still obliged to observe the principle of distinction requiring that civilians not be made the object of attack "unless and for such time as they take a direct part in hostilities" (a principle reaffirmed in article 51(3) of Additional Protocol 1 to the Geneva Conventions). In addition, the Israel Defense Forces are obliged to comply with the principle of proportionality, which requires that injury to non-combatants or damage to civilian objects not be disproportionate to the military advantages derived from an operation. Above all, the Israel Defense Forces are subject to article 27 of the Fourth Geneva Convention, which stipulates that "protected persons are entitled in all circumstances, to respect for their persons and shall at all times be humanely treated, and shall be protected especially against all acts of violence or threats thereof ...".

14. Both Israelis and Palestinians have violated important norms of humanitarian law and international law as the confrontation has changed its character. Israel's freely acknowledged practice of selected assassination or targeted killings of Palestinian activists cannot be reconciled with provisions of the Fourth Geneva Convention, such as articles 27 and 32, which seek to protect the lives of protected persons not taking a direct part in hostilities. They also violate human rights norms that affirm the right to life and the prohibition on execution of civilians without trial and a fair judicial process. There is no basis for killing protected persons on the basis of suspicion that they have engaged or will engage in terroristic activities. In addition, many civilians not suspected of any unlawful activity have been killed in these targeted killings, in the bombing of villages or in gunfire exchanges, in circumstances indicating an indiscriminate and disproportionate use of force.

15. The force employed by Palestinians is also contrary to the norms of international law. The shooting of settlers cannot be justified. Despite the fact that the settlements violate article 49(6) of the Fourth Geneva Convention, and the fact that the settlers' presence in the Occupied Palestinian Territories is illegal, settlers remain civilians and cannot be treated as combatants, unless, of course, they are engaged as soldiers in the Israel Defense Forces. The planting of bombs in public places in Israel, resulting in loss of life of innocent civilians, is contrary to emerging norms of international law, now codified in the 1998 International Convention for the Suppression of Terrorist Bombings (General Assembly resolution 52/164), article 2 of which criminalizes such conduct. The extent to which these actions are subject to the control of the Palestinian Authority is uncertain. No doubt it could do more to prevent the shooting of settlers and the culture of violence that produces suicide bombers. On the other hand, despite Israeli claims to the contrary, it seems unlikely that Palestinian violence is subject to any centralized control. In this respect, it differs from the Israeli use of force.

16. The failure of attempts to end the violence, either by calls for a ceasefire from the parties to the conflict, or from third States (notably the United States), or by security arrangements brokered from outside (such as the Tenet plan), suggests that the time has come for some international presence in the region to monitor and reduce the use of violence. This obvious conclusion was affirmed by the G8 Foreign Ministers in their meeting in Rome on 18 and 19 July 2001. Despite this, attempts to persuade the Security Council to approve such a plan have failed. The Special Rapporteur finds it difficult to understand why no serious attempt has been made by the international community to persuade Israel to accept such a presence (the Palestinian Authority having already agreed to an international presence). International monitors or peacekeepers have been employed in many less threatening situations in the world and there is no reason why the Occupied Palestinian Territories should be treated differently.

V. Occupation and the second intifada

17. The principal cause of the second intifada and of the escalating violence, in the view of the Special Rapporteur, is the continuing occupation — an occupation which has continued for over 34 years in the face of condemnation by the United Nations; an occupation whose substance (albeit not form) remained unaltered throughout the period of negotiations resulting from the Oslo Accords; an occupation that continues to frustrate and humiliate Palestinians. In the opinion of the Special Rapporteur,

peace will not be restored to the region until there is clear evidence of an intention on the part of the occupying Power to put an end to the occupation. At present, however, there is little evidence of such an intention. On the contrary, the signs of occupation have intensified since the start of the second intifada. Expanding settlements, demolition of houses and the destruction of property, restrictions on freedom of movement and the economic blockade are a constant reminder to Palestinians of the occupation.

A. Settlements

18. The international community is united in its categorization of Jewish settlements in the West Bank and Gaza as contrary to article 49(6) of the Fourth Geneva Convention, which prohibits an occupying power from transferring parts of its own civilian population into the territory it occupies. Numerous resolutions of the Security Council and the General Assembly have condemned the settlements as illegal.

19. Today, there are some 190 settlements in the West Bank and Gaza, inhabited by approximately 380,000 settlers, of whom some 180,000 live in the East Jerusalem area. Settlements are linked to each other and Israel by a vast system of bypass roads (from which Palestinian vehicles are excluded), which have a 50 to 75-metre buffer zone on each side of the road in which no building is permitted. These settlements and roads, which separate Palestinian communities and deprive Palestinians of agricultural land have fragmented both land and people. In effect, they foreclose the possibility of a Palestinian State as they destroy the territorial integrity of the Palestinian territory.

20. The relationship between settlers and Palestinians is an unhappy one and each side views the other with hostility, anger and suspicion. Protected by the Israel military, and exempt from the jurisdiction of the courts of the Palestinian Authority, settlers have committed numerous acts of violence against Palestinians and destroyed Palestinian agricultural land and property. Since the beginning of the second intifada, incidents of settler violence have dramatically increased. Palestinian hostility towards settlers has grown alarmingly since the start of this intifada and most of the Israelis killed in the present conflict have been settlers or soldiers charged with the task of protecting settlements and roads leading to settlements.

21. That peace is impossible without a complete freeze on all settlement activity was emphasized by the "Mitchell report" of 20 May 2001 (report of the Sharm Al Sheikh Fact-finding Committee). The response of the Government of Israel to that recommendation was far from satisfactory. It declared that "it is already part of the policy of the Government of Israel not to establish new settlements. At the same time, the current and everyday needs of the development of such communities must be taken into account". In other words, the "natural growth" of the settlements will continue.

22. The evidence of the continued expansion of settlement activity is all too clear. During his visit, the Special Rapporteur saw evidence of this in the form of construction activity in the settlements of Har Homa and Pisgat Ze'ev and in the extension of the buffer zones adjacent to bypass/settler roads in the Gaza Strip. He also received evidence of the growth in the number of housing units, the expansion of the territorial limits of settlements by means of caravan outposts established

adjacent to settlements, and of an increase in the settler population in the West Bank and Gaza from 203,067 in December 2000 to 205,015 in June 2001. Generous tax breaks and cheap housing in the settlements ensure that their growth will continue.

B. Demolition of houses and destruction of property

23. The demolition of houses in Palestinian territory, either for security purposes (as in Rafah) or for administrative reasons (as in the refugee camp of Shu'afat) continue. Since September 2000, over 300 homes have been completely demolished (compared with 93 in 1999). The Special Rapporteur saw evidence of the demolition of houses in Rafah and Shu'afat by bulldozer and of the destruction of houses in Beit Jala by missiles. This action, on the part of the Israeli authorities, is difficult to reconcile with article 53 of the Fourth Geneva Convention, which prohibits the destruction of property except where rendered "*absolutely necessary* by military operations". While Israel sees this action as justified on grounds of military necessity, Palestinians see it as part of a larger design to restrict Palestinian growth, encourage Palestinian emigration and humiliate the people.

24. The creation of buffer zones for bypass roads and settlements has resulted in the "sweeping" of large areas of agricultural land by bulldozers. A total of 385,808 fruit and olive trees have been uprooted, and wells and agricultural constructions destroyed.

C. Closure and checkpoints: restrictions on freedom of movement

25. Since 29 September 2000, Israel has imposed severe restrictions on freedom of movement in the occupied territories. International borders with Egypt and Jordan have been closed, the Gaza Strip has been sealed off from the rest of the Palestinian territory and over a hundred checkpoints have been placed on roads in the West Bank. The Israel Defense Forces have placed checkpoints at the entrances to villages and entry and exit are often possible only via dirt roads, entailing enormous hardships. Trips that once took 15 minutes now take several hours. In some of the villages, mostly in areas near settlements and bypass roads, the dirt roads have also been blocked with large concrete blocks and piles of dirt, and residents are imprisoned in their villages. The Special Rapporteur visited the city of Jericho, which has been encircled by a deep trench to deny vehicles access to the city except through an Israel Defense Forces checkpoint.

26. The cumulative effect of these restrictions on the freedom of movement of people and goods is understandably perceived by the Palestinians affected as a siege. It has resulted in severe socio-economic hardships in the Palestinian territory. The internal closures have effectively sealed Palestinian population centres and restricted movement from one locality to another. The restriction on the entry of Palestinians into Israel has meant denial of access to their places of work in Israel to an estimated 115,000 Palestinians. The economic results have been devastating: the families of these workers are now suffering from a complete lack of income, threatening them with destitution. Over 50 per cent of the Palestinian workforce is now unemployed. Health and education have also suffered. Ambulances are prevented from transporting the sick to hospitals and some schools have been unable to operate owing to curfews and closures.

27. Road checkpoints have become a regular feature of Palestinian life. Palestinians are obliged to wait for lengthy periods while Israeli soldiers check vehicles and inspect identity documents. In order to avoid these delays Palestinians often abandon their cars or leave their taxi and cross the checkpoint on foot to catch a taxi on the other side of the checkpoint. This practice indicates the purpose of the exercise. It is not to prevent would-be suicide bombers from crossing checkpoints that lead to Israel, as any such person may walk around the checkpoint carrying heavy baggage. Rather, it is to humiliate Palestinians and to put pressure on them to cease resistance to Israeli occupation. In this sense, it is a collective punishment of the kind prohibited by article 33 of the Fourth Geneva Convention.

D. Orient House

28. On 10 August 2001, Israeli security forces seized and occupied Orient House, the political headquarters of the Palestinian people in East Jerusalem, in retaliation for a suicide bomb attack in West Jerusalem. This action, which may be seen as further evidence of a determination on the part of the Government of Israel to assert its authority as an occupying Power, has exacerbated an already tense situation and placed another obstacle in the path of peace.

VI. Concluding remarks

29. It is clearly necessary to bring the present violence in the Occupied Palestinian Territories and Israel to an end. Targeted killings of selected Palestinians by guided missiles, terrorist bombings in Israel and the indiscriminate killing of civilians by both sides must cease. That this is difficult to achieve is confirmed by the failures of numerous proclaimed ceasefires in recent months — failures for which both Israelis and Palestinians must accept responsibility. In these circumstances, there is a clear need for some international presence, either in the form of monitors or peacekeepers, to ensure that the ceasefire holds — or at least does better than at present. It is recommended that both Israel and the Palestinian Authority should agree to such an international presence. It is incumbent on the international community to ensure that such an agreement is forthcoming.

30. Israel's continued refusal to accept the Fourth Geneva Convention relative to the Protection of Civilian Persons in Time of War as the governing law makes it imperative that the High Contracting Parties to the Convention convene as soon as possible to consider the applicability of the Convention and the violation of the Convention.

31. International humanitarian law and human rights norms have been seriously violated in the present conflict. Both Israelis and Palestinians should make every endeavour to promote respect for the rule of law. Israel's violation of the freedom of movement in the Occupied Palestinian Territories requires particular attention.

32. Settlements are an ever visible and aggravating sign of occupation and of Israel's illegal conduct as an occupying Power. It is not enough to merely impose a freeze on settlements. Steps must now start to dismantle settlements.

33. There is a need to rebuild confidence on both sides as a prelude to the resumption of negotiations leading to a permanent settlement. The Palestinians

could undoubtedly help to restore confidence by taking firmer measures to prevent terrorism in Israel. More is needed from Israel. Until Israel takes some action that indicates a willingness to contemplate the termination of the occupation, it is unlikely that the Palestinians will accept its good faith in negotiations aimed at a permanent settlement. Such action might take the form of a start in the dismantling of settlements: for example, the withdrawal of all settlements from the Gaza Strip. The Special Rapporteur appeals to the Government of Israel to take some action of this kind to restore confidence in the peace process.



General Assembly

Distr.: General
5 October 2001

Original: English

Fifty-sixth session

Agenda item 166

Measures to eliminate international terrorism

**Letter dated 28 September 2001 from the Permanent
Representative of Nepal to the United Nations addressed
to the Secretary-General**

I have the honour to transmit herewith messages from His Majesty King Gyanendra Bir Bikram Shah Dev (see annex I) and the Right Honourable Prime Minister Mr. Sher Bahadur Deuba (see annex II) with regard to the horrific terrorist attacks on the United States of America on 11 September 2001.

I would appreciate it if you could issue the present letter and its annexes as documents of the fifty-sixth session of the General Assembly under agenda item 166.

(Signed) Murari Raj Sharma
Ambassador
Permanent Representative

01-56681 (E) 051001



Annex I to the letter dated 28 September 2001 from the Permanent Representative of Nepal to the United Nations addressed to the Secretary-General

We are shocked to learn of the horrific acts of terrorism resulting in the incalculable loss of innocent lives and damage to property on the soil of the United States of America. Such cowardly acts violate all international norms and human dignity. They must be condemned as crimes against humanity and the perpetrators brought to justice.

As a nation that has always been a strong advocate of peace, Nepal believes that all countries must join hands in combating and eliminating terrorism from the world.

The Government and people of Nepal join us in conveying to you and, through you, to the affected families along with the Government and people of the United States of America our heartfelt condolences and sympathy in this hour of great tragedy.

Gyanendra R.

**Annex II to the letter dated 28 September 2001 from the
Permanent Representative of Nepal to the United Nations
addressed to the Secretary-General**

The news of the terrorist attacks that struck in New York and Washington, D.C., yesterday has come as a deep shock to us all. At this hour of great tragedy, I wish to extend my heartfelt condolences and sympathy to you and, through you, to the bereaved and affected families, the people and Government of the United States of America. His Majesty's Government of Nepal strongly condemns this act of terrorism.

On this sad occasion, I reiterate the unequivocal condemnation of His Majesty's Government of Nepal of all forms and manifestations of terrorism. This dastardly act has once again brought to the fore the need for more cooperation between the Government and the peoples of the world to eradicate such evil from the civilized world.

Sher Bahadur Deuba
Prime Minister of the Kingdom of Nepal



General Assembly

Distr.: General
5 October 2001

Original: English

Fifty-sixth session

Agenda item 96 (a)

Sectoral policy questions: business and development

Business and development

Report of the Secretary-General*

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* The present report was submitted after the established deadline owing to the need for extensive consultations with United Nations and non-United Nations entities.



I. Introduction

1. The present report is submitted in response to General Assembly resolution 54/204 of 22 December 1999 on business and development. The intention of that resolution was to return during the current session of the General Assembly to the debate on business and development on a basis of additional insights into advancing development through (a) partnerships between Governments, multilateral institutions and the private sector; (b) fostering an environment that is conducive to business development; and (c) socially responsible ways to conduct business.

2. At the same time, in the context of searching for strong partnerships in pursuit of development and poverty eradication, in resolution 55/215 of 21 December 2000, entitled "Towards global partnerships", the General Assembly requested a report on the ways and means to enhance cooperation between the United Nations and all relevant partners, in particular the private sector, in order to ensure that globalization becomes a positive force for all. The present report should be read in conjunction with the report of the Secretary-General on cooperation between the United Nations and all relevant partners, in particular the private sector (A/56/323). It will address two key questions: what does it take to secure entrepreneurial development in the world, and what does it take to secure that business behaves in a "socially responsible" way?

II. Trends in entrepreneurial development

3. Entrepreneurship development has become a priority for many policy makers in developed and developing countries alike, in market as well as transition economies. Encouraging entrepreneurship is increasingly perceived as a policy option leading to a higher level of economic development, increased productivity, job creation and promotion of more broad-based participation in productive activities, particularly by the poor and by women.

4. The United Nations system has contributed to the promotion of entrepreneurship and business in developing and transition economies through the intergovernmental processes as well as through policy dialogue, advocacy, research, information, learning and

operational activities. The international conferences of the 1990s recognized the crucial role of the private sector, together with other actors of civil society, and of entrepreneurship in achieving the goals of economic, social and environmentally sound development. Agenda 21 looked at ways to strengthen the role of business and industry in sustainable development (chap. 30). The World Summit for Social Development addressed a number of recommendations for achieving social development goals that were aimed at enterprises. The business community participated in the United Nations Conference on Human Settlements (Habitat II) through the World Business Forum. The United Nations is engaged in strengthening its relations with the private sector, further to a specific mandate contained in the Millennium Declaration (General Assembly resolution 55/2; see also resolution 48/180 and the reports of the Secretary-General dated 12 September 1995 (A/50/417) and 3 October 1997 (A/52/428)).

5. Most of the United Nations efforts to promote entrepreneurship focus on the "access" problems faced by small and medium-sized enterprises, that is, access to markets, finance, business skills and technology, which in many cases have been aggravated during the last decade by the intense competition on the global market.

6. For instance, the International Trade Centre has established an extensive programme to help entrepreneurs to access markets. Recognizing that inter-firm cooperation in the form of partnering, networking and clustering can also provide many of the ingredients that entrepreneurs need to grow their businesses, the United Nations Conference on Trade and Development (UNCTAD) is continuing to implement an entrepreneurship programme that assists in developing business skills, accessing finance, partnering and networking. It has also undertaken extensive research of linkages between foreign affiliates of multinational enterprises and local companies in developing countries, with the objective of using such linkages to upgrade the competitive capabilities of the domestic enterprises.¹ The United Nations Industrial Development Organization (UNIDO), for its part, provides a broad range of services to help strengthen private sector representative organizations so that they can offer effective advisory and training services to their members, especially small and medium-sized enterprises. The UNIDO Partnership

Programme was launched in 1998 with the objective of working with the established business community to enhance the competitiveness of small and medium-sized enterprises and facilitate their integration into global value chains.

7. Developing and transition economies are taking steps to encourage entrepreneurship and start-ups of small and medium-sized enterprises. They recognize that these enterprises require only modest amounts of capital to generate employment, spread economic activity throughout the country and help distribute the benefits of economic development.² Common to all such initiatives is the assumption that entrepreneurship and economic growth are closely linked.

A. Entrepreneurial environment

8. The degree to which entrepreneurship prevails and the extent to which the potential for business creation is allowed to be realized in a country are considered to be the determining factors in the economic growth of any society. There are environments that favour entrepreneurship and environments that hinder its development. In a recent project, Babson College and the London Business School³ conducted a study which provides strong evidence in support of the assumption that entrepreneurship and economic growth are closely linked, and that there is substantial variation in the level of entrepreneurial activity between countries.

9. In addition, in analysing the factors that explain differences in the levels of entrepreneurial activity, consistent patterns emerge. The most significant include the following:

- (a) The fundamental importance of demographic structure;
- (b) The consistent under-representation of women;
- (c) Central features of the economic systems, such as the presence of the Government in the economy, levels of taxation, the operation of the labour market and investment in education;
- (d) The extent to which individuals perceive there are good opportunities to start a business;
- (e) The presence of entrepreneurial capacity (the skills required to start a business);

(f) The availability of early-stage finance, both public and private;

(g) The degree to which entrepreneurial activities are socially acceptable.

10. The following guiding principles of entrepreneurship seem crucial for competitiveness in the global market:

- (a) Learning to scan for opportunities;
- (b) Learning to recognize the potential of new technology;
- (c) Developing a methodology for gathering competitive intelligence;
- (d) Developing a network to enable the tapping of the (global) capital markets;
- (e) Adapting to local tastes and consumer needs.

11. The central argument of the analysis contained in the Global Entrepreneurship Monitor, an annual publication of the above-mentioned project of Babson College and the London Business School is that national economic growth is a function of two parallel sets of interrelated activities, namely those associated with major established firms and those related directly to the entrepreneurial process. Major firms, often competing in the global market, clearly make a major contribution to economic growth and wealth creation. Their success is determined in part by the national context in which they operate, that is, openness, size and role of government, efficiency of financial markets, level and intensity of technology and research and development, physical infrastructure, management skills, flexible labour market and institutions.

12. However, empirical tests have proven that transactional activity among large firms explains only a portion of the variation in economic growth throughout the world. The entrepreneurial process appears to also account for a significant proportion of the differences in economic prosperity between countries. Entrepreneurial activity is driven by the perception of entrepreneurial opportunities combined with the skills and motivation to exploit them. There is a broad consensus that entrepreneurial activity thrives in a particular context, which includes, *inter alia*, the availability of finance, government policies and programmes designed to support start-ups, and education and training for entrepreneurship.⁴

B. Main features of entrepreneurship

13. According to the Global Entrepreneurship Monitor 2000, men are twice as likely to be involved in entrepreneurial activity as women. This statement holds true for developing and developed countries alike, although the level of women's participation in entrepreneurship varies largely among them. For example, the male-to-female ratio in France is 12:1, while in Brazil it is 1.6:1. In developing and transition economies, starting and owning a business is especially important for women. They often find themselves without access to jobs in the formal sector, yet increasingly shoulder family financial burdens. Women have proven to be very good credit risks (as has been proven by various micro-lending programmes) and tend to plough back a considerable share of income into human resource development (that is, food, health and education for children). Nevertheless, they face considerable handicaps when competing for scarce resources and services owing to cultural constraints, difficulties in access to legal services and, in some societies, low educational and literacy attainments. Support for women entrepreneurs has typically taken the form of project-centred interventions involving the provision of credit and technical assistance. However, it is recognized that efforts need to shift to improving and strengthening the policy framework and to developing indigenous institutional systems that promote and facilitate women's entrepreneurship development.⁵

14. Local and regional economic, social and institutional conditions have a strong influence on entrepreneurial development. The nature of entrepreneurial activity can vary across subnational regions owing to differences in the general and the specific entrepreneurial framework conditions. The concentration of business activity can be extremely significant from a national standpoint: it is estimated that some 380 clusters of firms in the United States together produce 61 per cent of the country's output. Examples can be found in the industrial districts of northern Italy, Silicon Valley in the United States of America, Silicon Glen (between Glasgow and Edinburgh) in Scotland and the Valencia region in Spain. In developing and transition economies also, great contrasts can be observed between large urban areas showing signs of a dynamic entrepreneurial activity, and most rural areas that lag behind. It has to be noted though that most cluster concentrations of

firms have occurred spontaneously rather than as an outcome of public policy. Policy can consolidate some of the benefits of existing or fledgling clusters by ensuring suitable institutional conditions. Furthermore, a number of social problems, such as distressed urban areas or unemployment among minorities, are also highly concentrated geographically and can greatly benefit from a local policy response.⁶

15. Entrepreneurial activity is driven by the perception of entrepreneurial opportunity, supported by the skills and motivation necessary to exploit them. Technological innovation and greater economic liberalization have generated global opportunities, involving new markets and new organization of factors of production. Economic globalization that involves increased mobility of factors of production, goods and services as well as the progress of information and communication technology, have both generated the creation of new economic spaces. They have added a number of new dimensions to the phenomenon of entrepreneurship, that is, diminishing importance of national borders and greater interconnection of markets that stretch beyond a particular region. The advance of information and communication technology has created a new market space, economic cyberspace especially for information and knowledge, and enabled new modes of production and distribution. Physical location becomes less relevant for the digital economy, in the sense that parts of the industry are largely based upon the level of technical education and entrepreneurial skills of its workforce. Whether the firms are located in India, Silicon Valley or London is less important than the ability of the cluster of high-technology firms to network among themselves.

C. Financing entrepreneurs

16. Access to financing is one of the major issues hindering entrepreneurial development around the world. The availability of early-stage financing was found to be highly associated with the level of entrepreneurial activity.⁷ Start-up enterprises by definition have no track record, and around half of them are likely to close down within the first five years.⁸ Traditional forms for obtaining finance, that is, bank loans, bonds or stock market flotation are often unavailable for the high-risk activity of starting a new venture. The essentially conservative nature of the banking industry precludes its major involvement.⁹

And only a well-established company could expect to meet the requirements for listing on a stock exchange.

17. Entrepreneurs typically obtain funding through venture capital funds or from informal investors (for example, friends, family members, colleagues and neighbours).

Venture capital

18. Classic venture capital is risk money invested in small, fledgling companies with high growth potential. Wherever available, it plays a key role in financing new and growth firms. The venture capital industry emerged to finance high-technology enterprises in developed countries, but the industry is also of relevance to the few developing countries that can offer attractive market niches. It is a rapidly expanding industry. Venture capital disbursements in the United States technology sector alone (Internet communications, electronic components, software and hardware) totalled \$1.2 billion in 1990, \$2.3 billion in 1995 and \$82.6 billion in 2000, which amounts to 36 times the 1995 figure.¹⁰ During the first half of 2001, such investments totalled only \$17 billion.¹¹ The total stock of venture capital funds in two developing and transition regions, Asia and Central and Eastern Europe, rose from \$300 million in 1990 to over \$7 billion in 1995.¹² Many developing and transition economies lack a pool of entrepreneurs and potential venture capitalists. The UNCTAD secretariat estimated that "the supply of potential venture capital managers in developing countries is virtually non-existent" and that "a good venture capitalist will learn through experience, but this takes time and the poor performance of inexperienced managers will impact on the initial results of a venture capital institution".¹³

19. Even though wealthy families started the venture capital market in the United States, over time it has become dominated by institutions such as university endowments and pension funds, which now contribute around 90 per cent of all venture money. Institutional investors in that country have increasingly recognized that they can earn higher returns for holding an asset class that, compared with stocks and bonds, is relatively illiquid and may not be worth anything for a number of years, if ever. These institutional investors now allocate a fixed proportion of their total holdings to venture capital. The institutionalization of the venture capital industry has meant that it has become less cautious about excessive valuations, in the process

financing too many competing ventures with doubtful business prospects.

20. The recent boom in venture capital was initiated to take advantage of the opportunities created by the Internet, but United States venture capital firms are now beginning to see that high-tech entrepreneurs exist in the remotest parts of the world. Entrepreneurs are tapping global markets for more than just funding. A European financial services web site, for instance, could be based in Ireland and run by French and German managers. The United States venture capital industry's success (and this would be a lesson to be heeded by emerging markets) can to a large extent be attributed to the fact that it placed as much emphasis on managing as on financing.

Informal funding

21. In many countries, informal funding represents a major infusion of economic resources in nascent and new firms, in most cases constituting a larger chunk than formal venture capital. Informal investments made by private individuals, friends and family of the fledgling entrepreneurs provided from 54 to 95 per cent of the start-up financial support in major industrialized nations and a number of developing economies.¹⁴ For example, in African countries between 59 and 98 per cent of small and medium-sized enterprises are capitalized through the entrepreneur's personal assets.¹⁵

22. Some groups of entrepreneurs have limited or no access to formal financing, such as bank credit or venture capital. These entrepreneurs are generally poor and reside mostly in developing countries. The entrepreneurial poor are usually farmers or small traders or producers of goods who need credit to purchase inputs, for example seeds, to start a production cycle, or to invest and expand production. Several arrangements offer financing where formal financial institutions do not. The entrepreneurial poor may have access to informal sources of financing, such as family, friends and moneylenders. These informal financing sources, which play an important role in all parts of the world, are very flexible and, as a rule, have low transaction costs. However, the extent of financial intermediation is small and has limited potential.

23. In recent years, semi-formal institutions, such as microcredit facilities operated by non-governmental organizations, have expanded their role in supporting

micro-entrepreneurs. They have been able to deliver financial services to the poor partly because they have imitated and adapted methods applied in the informal sector. Recently, even a few commercial banks have ventured into lending to the poor by adopting microfinance practices. For example, Bank Rakyat Indonesia, a State-owned bank that operates on a commercial basis, is one of the most successful organizations providing micro-loans for 2.5 million micro-borrowers. Micro-lending schemes have served millions of poor people. The few studies that have investigated the impact of microfinance operations on poverty reduction have found a generally positive impact of credit, particularly if the borrower is a woman. However, while there is evidence of gains in household consumption, nutrition, education and contraceptive use, the impact on asset accumulation, productivity and technology, and hence in achieving a lasting output increase, is less discernible.¹⁶

III. Related issues

A. Property rights

The concept of property rights

24. As proven, for instance, in a nineteenth century pioneering study of the Montagnes people of Quebec,¹⁷ one can establish a clear relationship between property rights and the growth of economic activities. Economic historians have shown how critical the institution of private ownership is for the development of the economy.

25. The thesis has been reinforced by Hernando de Soto's studies of contemporary developing and transition economies, which seem to demonstrate that the absence of clear property rights in these societies inhibits the growth of credit and consequently retards economic development.¹⁸ According to him, a primary function of property rights is to create incentives for using the transaction that transfers these property rights to respond to emerging externalities (monetary as well as non-monetary external costs/external benefits). Property rights systems — intended as controlled environments that reduce transaction costs — decrease the cost of dealing with assets and increase their value. Property rights function well if supported by the rule of law and an independent judiciary. As mentioned by Adam Smith, an efficient legal system (not just in its

nominal architecture) and the way in which it is enforced are fundamental for the good functioning of a market-based economic system. To the extent that it underpins stable property rights, it is considered to represent one of the key components of an enabling economic order, one that impacts positively on entrepreneurial development. Titles to property allow assets to be mortgaged and to be broken up into publicly traded stocks, as well as property management and appraisal with agreed-upon rules that hold across neighbourhoods, towns or regions. They also allow entrepreneurs to participate in the formal economy with the benefit of government recognition.¹⁹

Property rights and growth

26. De Soto observes further that the lack of success of some developing and transition economies is not due to the lack of assets, but to the lack of well-defined property rights that allow "dead" capital to be turned into "liquid" capital. In most developing countries, land is the fundamental collateral, and although poor people have a certain amount of production and real estate, these resources are commercially and financially invisible. Nobody knows who owns what or where. Often, the entrepreneurial poor have created wealth, sometimes collectively, on a vast scale. However, equally often, this wealth is in the form of informal ownership, it is extralegal, and as such it is commercially and financially invisible. According to de Soto, just the real estate held but not legally owned by the poor in the developing countries of the South and in the European transition economies is worth at least \$9.3 trillion.²⁰ In most of the developing countries, women have particularly limited access to property rights. This radically reduces their participation in the formal economy, limits their capacity to make decisions about production and utilization of income.

27. Only the western industrialized countries and small enclaves of wealthy individuals in developing and transition economies have the capacity to represent assets and, therefore, the ability to use capital efficiently. The invisible infrastructure of "asset management" — taken for granted in developed nations, even though it started to develop a little over 100 years ago — is considered to constitute the missing ingredient in the success of many developing and transition economies in the market economy.

Benefiting from property rights development

28. However, even though conversion of "dead" into "liquid" capital seems like primarily a legal problem, it remains also a political and social issue. Even if formal property rights would give the poor access to their "dead" capital, it does not necessarily follow that they would be able to put the capital to a productive use, owing to a number of potential constraints. Property systems can allow misappropriation of resources. Titles can be used to skim off wealth. Legal systems may not provide the necessary safeguards.²¹

29. In addition, as with any capital, once it is available, its investment must be judicious and productive. If not, this may become a recipe for the banks in the developing countries (in the globalized world — some local, some international) to start owning the farmland. Higher levels of education, development of business skills and generally greater access of people to knowledge would have to go hand in hand with such development.

B. Knowledge acquisition

Knowledge-based networked society

30. Knowledge acquisition goes beyond making education affordable and accessible to all as a way to develop human intelligence, enhance human creativity and in this way build up one of the key human capabilities. It is about ways in which society organizes itself to educate its members, but also to adopt, adapt and create knowledge for use in the production process and in the broader spectrum of life applications. Knowledge creates the basis for raising productivity. It is a source of instruction about things to know, but also about how to do things and how to function in various capacities. While it has always been important and it has always been applied in all walks of life, knowledge more than ever before is the key factor in securing economic growth and a high quality of life.

31. It is important also to understand that, when one talks about moving from an industrial to a networked age,²² one is talking in effect about networking the sources of information and knowledge. This networked knowledge capacity can then be used in economics, in politics or in everyday life. Knowledge is pervasive and environments rich in knowledge will offer countless opportunities for people to develop and for enterprises to apply it in the production process.

Environments poor in knowledge will offer fewer such opportunities and the gap between them and the knowledge-rich environments will quickly become visible as can be measured in human capabilities, in the value of exports of high-technology manufactured goods, in the value of exports of sophisticated services, and eventually in the quality of life.

Knowledge gap vis-à-vis digital gap

32. The discussion about knowledge acquisition and the knowledge gap is mistaken sometimes with the discussion about the digital divide. Surely, the information and communication revolution facilitates the knowledge revolution. Without electronic information and communication technology, the current breakthrough in harvesting, sorting, storing and distributing information and knowledge would not be possible. Knowledge acquisition, however, is more about a public mindset and institutions than about computers alone. People have to start to understand that a vast resource is available to them and that it can make a sea of difference in the way they live and work. They must also accord high social status to the knowledge workers. Otherwise, individuals making decisions about allocating their capabilities will not choose studies or careers connected with knowledge development. Such a public mindset would make all the other necessary steps much easier. Information and knowledge must become available. Barring State secrets and proprietary knowledge (which can be easily defined and protected), a culture of transparency, if necessary supported by regulations, must bring out to the public domain all the knowledge that is available and can be used by others. Institutions must be developed to collect knowledge and make it available in a user-friendly way. Institutions must be developed to create new knowledge. Connectivity is needed, but it is crippled without freedom of speech that assures freedom of content. Education is needed to make people open to the new life opportunities that the increased availability of knowledge brings to them. Finally, an environment conducive to entrepreneurship is needed in order for people to benefit from the economic potential of knowledge.

The importance of technological innovations

33. Technological innovations are a specific manifestation of knowledge. They play a key role in raising productivity and accelerating the rate of

economic growth. Historically, the most rapid economic change has always followed periods of intensive technological innovation that has increased the potential returns from building up financial surpluses. As a matter of fact, by comparing the investment and the growth rates, one can see that there are developing countries that actually have more financial resources than they can use productively. In such cases, a change in the growth profile rather than more financial capital is needed. They have to find ways to increase the productivity of capital and labour via the application of technology.

34. Countries that do not keep up with global technology development often collapse, unable even to maintain their standard of living, much less increase it. They usually depend on a narrow range of exports that lose their profitability in the world economy. The long-term decline in the terms of trade of primary commodities is itself a side-effect of technological innovation.²³

35. There is no doubt that the current simultaneous shift in technology and in economics, that is, the revolution that engulfs knowledge acquisition and technology development, as well as the global manufacturing system that is the bedrock of economic globalization will exacerbate these trends. In order to make sure that an entrepreneurial country uses its economic potential to the fullest, a dynamic system for knowledge acquisition must be implemented.

C. Regulatory framework and governance

Reform and quality of regulatory framework

36. Regulatory framework establishes a space in which, ideally, society strives towards achieving a high level of human development; in support of this goal, markets allocate resources, produce goods and services, and create wealth. In a globalized economy, such a framework increasingly represents a mix of national and international regulations. Yet, in most cases, whatever their origin, it is still the coercive capacity of the national Government that stands behind the execution of these regulations and it is still the national rather than the global context that prevails in shaping the majority of the elements of the regulatory frameworks.

37. The quality of these regulations matters. As regulations are so diverse, it is difficult to define

features of a high-quality regulation. Those who have engaged in regulatory reform²⁴ are prepared to be guided not by the content of the regulations, but rather by goals that the regulations achieve. However, in generic terms, enhancing performance and increasing cost-efficiency are also used as important yardsticks.

38. In the above discussion of entrepreneurial development, much attention has been devoted to the entrepreneurial framework conditions. If one wants to speak about high-quality entrepreneurial framework conditions, one has to realize that there are two sides to them.

39. To a great extent, the technical side relates to the content and user-friendliness of the prevailing regulatory framework. Therefore, regulations do have to be monitored and revised while keeping both in mind. Regulatory reform is known to have boosted sectoral efficiency and innovation, enhanced economy-wide flexibility and potential growth, increased consumer choice and welfare, and increased governmental effectiveness in maintaining high standards of environmental, consumer and safety protections. It can improve the efficiency of national economies and their ability to adapt to the global change. It can target the reduction of business burdens and increase transparency of the overall regulatory regimes that support entrepreneurship, market entry and economic growth, and in turn produce high-quality jobs. Such reform is particularly meaningful for micro, small and medium-size enterprises. While as a rule they tend to be protected, they also have at their disposal little capacity to deal with the cumulative impact of administrative and other regulations.²⁵

The importance of good governance

40. The discussion about the relation between democracy and economic growth has a rich tradition. For a long time, it has seemed inconclusive. However, recent research provides convincing arguments in support of those who have maintained that, in securing lasting economic growth it matters what system of exercising authority prevails in a given country.²⁶ In other words, the type of governance determines the nature of the interaction between the Government and the market as well as its outcome. Depending on the type of governance, the public goods that the Government buys and the kind of regulations that it enforces, the Government can either augment or undercut the market. Empirical evidence tends to

confirm the hypothesis that democratic governance supports market-augmenting Governments, while undemocratic governance tends to eventually suppress the wealth-creating potential of the market.

The importance of inclusion via representation

41. Systems that are not representative and shut down the conversation with the public at large are condemned to an encompassing interest that is narrow. As a rule in such societies, the most value-creating contracts are upheld, whether in the private or in the public domain. However, ignoring a whole plethora of contracts that are crucially important from the point of view of prosperity but somewhat less valuable would effectively shut down whole markets as well. The creation of a host of growth and development-promoting public goods is being ignored. There is no lobby strong enough to make sure that they are not. The group of people who benefit directly from income and indirectly from redistribution of wealth via public goods is small. There is little chance that such systems can forego the growth and development-retarding exaction on groups of the population that are not attached to the immediate structure of power. If economic success comes in such situations, it tends to depend on building a "hard State", one that has a long-term vision of development and does not adapt its policies to any organized interests. In the long run, even the most effective of them tend to experience difficulties, most often stemming from sub-optimal allocation of financial resources and flight of educated nationals.

42. In contrast, the encompassing interest of democracies tends to be much broader: it extends to the majority. Many enlightened democracies are known to make the qualitative jump and develop a "super-encompassing interest" that goes beyond serving the majority only by taking care of the greater public good. They are more likely to develop a legal system and political order that support, for instance, property rights and the enforcement of contracts in the public domain, and facilitate a lasting and widely used capital market.

43. Such systems, for the same reasons, tend to be more receptive to the reform of regulations and of administrative procedures that keeps up with changing circumstances for conducting business. As stated in the forthcoming World Public Sector Report, "... Governments should take the lead in simplifying

procedures and regulations for the registering and licensing of business. Without simplifying bureaucratic procedures and rules to set up business, many developing countries will lag far behind and will remain marginalized in the process of globalization ... there needs to be a permanent machinery for consultation with representatives of the private sector on the formulation of relevant policies and monitoring their impact." It is about cutting the red tape, increasing information flows, enforcing greater transparency and lowering the cost of access to markets.

The importance of inclusion via freedom

44. The value of freedom is expressed in two ways:

(a) First, freedom is a pre-condition for the development of human creativity. This has always been an important ingredient of all political, economic and social processes, but it is especially relevant now, when societies have to organize for purposes of benefiting from knowledge. This can happen only in an environment that supports freedom of speech, association and assembly, extended to cyberspace. The creative minds of knowledge workers will not thrive in constrained situations. They will either wane or move on in search of a more liveable state;

(b) Second, it encourages entrepreneurship. Societies that host economies with thousands of entrepreneurs have a much greater chance of economic success in the long run. They simply allow the testing of the future by more "trial and error" economic experiments. There is no way that a society can predict the future and plan for it. This is why a very broad array of economic transactions can cover a lot more possible options than the decisions of any single person or of a limited number of economic agents. The recent "dot com" phenomenon in the industrialized countries is but a repetition of earlier eras of technological revolutions, all embodying certain common characteristics: (a) experimenting; (b) capitalization; (c) management; (d) hyper-competition; and (e) consolidation. In the end, then and now, there has been a predictable number of business failures, but eventually the success stories provided reliable railroad transportation in the nineteenth and twentieth centuries and will no doubt provide information and communication technology connectivity and applications for work and life in the twenty-first century.

IV. The issue of socially responsible business behaviour

A. Responsibility of business

45. The question of "to whom and for what are the business firms responsible?" has many possible answers. The answer that they should be responsible to the public at large for important contributions to many aspects of human development would convert the companies' boards into "society's policemen", a responsibility that today is neither obvious nor easily accepted.

The passive view

46. In discussions about socially responsible business behaviour, the point is often raised that the private sector's greatest contribution to human development is its success in the efficient allocation of resources in the production process and securing in this way the least expensive delivery of the goods and services that people want. This is true if the private sector supports competitive markets and has enough information to allow markets to clear, even in the long run; if the culture industry does not take over the formulation of peoples' tastes and, as a consequence, shape demand in the marketplace; and, if across the society, real incomes are allowed to grow over time. If it is, it indeed creates wealth, a basis for assuring one of the fundamental human capabilities: to have a decent standard of living.

47. One more argument that is repeated equally often stresses the primacy of the shareholders' interest and the maximization of the shareholders' value. This assumes the existence of a diverse shareholder community connected to the firm only by investment objectives. This holds true in parts of the world, but it is not universal. Business firms can be owned by a few strategic investors or they can represent major corporate cross-shareholdings, a joint venture or a family-controlled business in which the family has sold a majority interest to diverse shareholders, but retains a controlling minority. They can be recently privatized companies with large residual government holdings. On top of this, much of the sustained economic growth of the 1990s has been brought about by the transnational flow of institutional portfolio equity investments and foreign direct investment. The inherent threat of the capital flight and the rapidly

decreasing duration of shareholdings complicates the picture additionally.²⁷

48. One can also argue that if it is true that human intelligence augmented with information and communication technology is becoming the leading factor of production, building up at least part of human development infrastructure may eventually become a bona fide business concern. It can be argued that, if a society wants business to behave in a socially responsible way, government regulation can simply create a legal framework in which certain aspects of such behaviour are mandated under the law. This comes about, though, with difficulty even in the national context. There are important, valid arguments concerning liberty that are involved here. Ideology and politics often blur the discussion about adopting such regulations by making them part of much broader battles.

The changing perspective of business

49. Corporations view risks in two different ways. One way is to view risk as a direct threat to a corporation's cash flow, as a result of liability arising from an activity of a corporation that produces negative externalities. That corporation's legal liabilities may threaten its balance sheet. Another way is to view corporate risk from an "image perspective", or people's reactions to the adverse effects of a corporate activity. The reaction of the public can create immense business risks to the cash flows and asset values of a corporation. A company may lose customers as a result of adverse publicity about its performance. "Loss of reputation", "safeguarding brands", "customer loyalty" and "retention of market share" now rank very high on the list of corporate strategies. Risks can also include the costs of external audits that determine, for example, potential pollution problems and the implementation of mechanisms that reduce contamination and clean-up costs.

50. A more practical answer to the question of "to whom business should be responsible", can be answered by flagging the issue of "accountability". Corporate charters dictate that managers are accountable to directors who, in turn, are accountable to shareholders. This chain of accountability was seldom tested before the early 1990s. As that decade set in, the corporate governance movement embarked on an effort, with a high degree of success, to compel managers who functioned with little regard for

shareholder value to change their ways or find new jobs.

51. The mechanism through which this chain of command is tested is the market capitalization, or very simply the stock price of a firm. The agent through which this mechanism passes through the system is the new global investor, namely the institutional and pension fund investor. In the case of the United States, for example, these investors control approximately half of all United States publicly traded stocks.

52. Externalized costs to the firm will be reflected in the company's stock price, when the market perceives increased risks to future revenues from loss of reputation, lawsuits and fines. As might be expected, such an outcome is confirmed by a recent study by Innovest, a financial advisory firm specializing in environmental finance and investment. The company reviewed the environmental impact of 800 companies over a period of more than two years, ending in March 2000, and classified them into a top half and a bottom half by industry. What it found was that the stock price of the more environmentally friendly top half outperformed the bottom half by 22 percent in global forest products, 16 per cent in United States chemicals, 17 per cent in United States petroleum and 12 per cent in United States electric utilities.²⁸

The Global Compact's view

53. The above question about business responsibility constitutes the core of the Secretary-General's Global Compact²⁹ initiative. It refers to the "shared values and principles" between the United Nations and business. It builds on the positive trends described above. It stresses that pure economic utility, pure economic advantage can go hand in hand with business support for human rights; freedom of association and the right to collective bargaining; elimination of compulsory or child labour; elimination of discriminatory hiring practices; and protection of the natural environment. It stresses that, if and when it does, it creates a win-win situation that secures the self-interest of a corporation and "gives human face to the global market".³⁰

B. Social responsibility of business as a "near rational" economic choice

54. In fact, "pure economic utility" exists in the economic textbooks only. To come closer to the real life situation, many economists speak about "near rationality of economic agents".³¹ While most of the scientific debate in this area has focused on its wage/unemployment aspects, interesting extrapolations are possible. Of course, these would have to be further tested, but as a minimum, they seem to deserve listing:

(a) First, much of the current thinking on the role that business can or cannot play in addressing issues related to human development, locally and globally, indeed seems to be locked in the oversimplified model of economic utility. It assumes that, in the complex world of business activities, the values, preferences and behaviour patterns to which a business firm refers are one-dimensional and for all practical purposes do not change over time. However, many business choices that are eventually made are "menu-dependent". They consider various immediate and future outcomes and are based not on one factor, but on a broad "opportunity set"³² of factors;

(b) Second, the above-mentioned values, preferences and behaviour patterns emerge not only from market signals, but also from lessons taught by a community. Public policy might alter them and thereby change business responses to the prevailing or emerging human development situations. There exists a clear interaction between government actions, community norms and individual preferences. In other words, "[people tend to] display a sophistication beyond the [economic] model used to evaluate their behaviour"³³ and while human behaviour always tends to maximize the overall payoff, caring about others as "ends" and not only as "means" to achieve one's advantage may enter and often does enter into calculations related to business activities;³⁴

(c) Third, empirical research seems to confirm that business firms have a limited scope and duration, but at the same time relatively wide latitude to deviate from full optimization of economic utility; that is, they can go in the near rational direction without incurring significant economic losses.³⁵ For instance, a degree of fairness is often factored into business decisions.

55. These points have practical implications. They say that a society has a business sector that by and

large fits into its behaviour the society's readiness to make human solidarity part of their set of values. They say also that a firm may take many steps towards socially responsible behaviour before it encounters negative economic consequences. It says that negative financial consequences may not automatically equal negative economic consequences, especially when one considers the payoff for socially responsible behaviour in the firm's reputation with its clients, respect and trust that it earns in the marketplace and with the public at large.

C. The role of public opinion

56. The problem seems to be elsewhere. Decisions about advancing the role of business in human development in the world are very heavily anchored in the present status quo in which the above-mentioned one-dimensional model of economic behaviour prevails. Decisions to form broad partnerships and to start treating human development as a joint responsibility are very heavily anchored in the assumption that it is mostly the Government's role to promote a large share of human development (for example, health care and education). Finally, such decisions are heavily anchored in the existing backlog of human development. Experience shows that people's expectations of change in heavily anchored situations are small. Thinking big seems inconceivable under such circumstances and therefore is usually not tried, even if sweeping changes are quite feasible.

57. There is a promise in making these issues a subject of a broad public debate that would include Governments, the business community and civil society, locally and globally. The Global Compact has been one important step in this direction. There can and should be more. Such debates can impact directly the behaviour of business firms. They can result in governmental and intergovernmental actions that may not even include regulation but would have a beneficial impact on the prevailing social preferences and would lead to altering the incentives that the community offers to the business firms. They would also reinforce the demand for more transparency of business activities and in this way they would make the public debate broader and better informed.

58. There is a promise also in joining the debate both locally and globally by the knowledgeable, skilled, networked individuals of the information age. Their

ability to advocate, network and create domains of shared interest that know no boundaries would constitute a powerful source for shaping the prevailing values, preferences and behaviour patterns. If they espouse the value of human solidarity, the menu of incentives that the society offers the business firm may direct it towards socially responsible behaviour.

D. Current trends

59. All this discussion is not happening in a vacuum. It is becoming accepted as a norm that corporate governance will comply with broader guidelines and frameworks. This starts to impact the valuation of firms by the money market managers. Very recently, such voluntary codes have been adopted in more than 30 countries.³⁶ There are also notable international efforts, such as the OECD Corporate Performance Guidelines and Principles of Corporate Governance; International Corporate Governance Network and the Commonwealth Association for Corporate Governance Guidelines. In a recent survey of 670 chief executive officers, the major complaint in all regions was not about the existence of regulations, but rather about the lack of harmonization of laws and regulations around the world. There seems to be space for trying to establish a kind of best practice guide for corporate governance as a global public good. Some suggest that a voluntary regulation, similar to the Basle Committee of Banking Standards or an ISO-type corporate quality certification would work best.³⁷

60. Of course, the question of content of such harmonized guidelines remains open. Today, while the idea of economic and social stability as a goal to be pursued by long-term corporate strategies is gradually finding its way to the boardrooms, the socially responsible behaviour of business remains far from being assured. It is encouraging, though, that the most reported international cases in recent times that have involved endangering the environment, bribery or inhuman working conditions have been solved as a rule in the way that public opinion has demanded, usually with new codes of conduct adopted by the firms concerned. In at least one of these cases, the management has recorded "a sense of discomfort" among its own staff. People seemed unhappy working for an organization that they did not regard as "ethical".³⁸

61. The constituency interested in and ready to respond to business behaviour therefore seems to be broadening. It continues to include the owners of various forms of capital, but it also includes the supplier and customer communities that are crucial to the position of the firm in the marketplace; employment base (especially if it represents a unique strength of expertise and skills); community in which a firm operates; and public opinion at large.

62. The backlog of human development is daunting. No one knows for sure how the composition of actors that can impact human development will look like in the future. There are indications that the structure in which there is one predominant actor (that is, government) and one predominant treasury (that is, public budget) may be replaced with a constellation of actors, public and private, each with its own capacity and treasury, forming ad hoc alliances to solve ad hoc problems. Government organizations, business firms, individuals and formal and informal organizations of civil society could be part of such a constellation. However, the issues on which it will be ready to focus and the solutions that it will apply will remain anchored in the results of public discourse: about values, about societal incentives and about payoffs that a society awards to business for socially responsible behaviour.

Notes

¹ See United Nations Conference on Trade and Development, "Enhancing the competitiveness of SMEs in the context of FDI in developing countries", 2000, (symbol TD/B/COM.3/34); United Nations Conference on Trade and Development, *World Investment Report 2001* (symbol UNCTAD/WIR/2001).

² See United Nations Conference on Trade and Development, "Providing sustainable financial and non-financial services for SME development", 16 April 1999 (symbol TD/B/COM.3/EM.7/2).

³ The Global Entrepreneurship Monitor (GEM) initiative was created in 1997 as a joint initiative by Babson College and the London Business School. A primary objective of the programme is to understand how the entrepreneurial process operates and how its contribution to economic growth varies across countries. Twenty-one countries participated in the study in 2000, of which six were developing economies in three geographic regions (South America, the Middle East and Asia). Built upon a solid research design that involves the collection and analysis of large samples of data in each country, the

study focuses on three fundamental questions: (a) Does the level of entrepreneurial activity vary between countries and, if so, how much? (b) Does the level of entrepreneurial activity affect a country's rate of economic growth? (c) What makes a country entrepreneurial?

⁴ United Nations Conference on Trade and Development, 1999.

⁵ Organisation for Economic Cooperation and Development, "DAC orientation for development cooperation in support of private sector development", OECD document symbol DCD/DAC(93)32/REV2, June 1994; World Bank "Ghana: Financial services for women entrepreneurs in the informal sector" WB Africa Region Findings, No. 136 June 1999; Reynolds, Hay, Bygrave, Camp and Autio "Global Entrepreneurship Monitor — 2000 Executive Report".

⁶ Irene Tinagli, "Competing in Europe. A Comparative Study on New Patterns of Development in European Regions" (April 2001); Organisation for Economic Cooperation and Development "Fostering Entrepreneurship", OECD Policy Brief No. 9, 1998.

⁷ Global Entrepreneurship Monitor.

⁸ Organisation for Economic Cooperation and Development, 1998.

⁹ United Nations Conference on Trade and Development, 1999.

¹⁰ Global Entrepreneurship Monitor.

¹¹ Sources: Venture Economics (www.ventureeconomics.com) and National Vulvodynia Association (www.nva.org).

¹² United Nations, *World Economic and Social Survey*, 1999.

¹³ *Ibid.*, 1999.

¹⁴ Global Entrepreneurship Monitor.

¹⁵ United Nations Conference on Trade and Development, "Issues concerning SMEs access to finance", Ad Hoc Working Group on the Role of Enterprises in Development, 1995 (TD/B/WG.7/6).

¹⁶ United Nations, *World Economic and Social Survey*, 1999.

¹⁷ Harold Demsetz, "Toward a theory of property rights", *American Economic Review*, 57, 347-59.

¹⁸ Hernando De Soto, "The mystery of capital", New York, Basic Books, 2000.

¹⁹ Global Entrepreneurship Monitor.

²⁰ Hernando De Soto, "The mystery of capital", New York, Basic Books, 2000.

- ²¹ United Nations, *World Economic and Social Survey*, 1993.
- ²² United Nations Development Programme, *Human Development Report 2001*.
- ²³ See: "A new map of the world", *The Economist*, 22 June 2000.
- ²⁴ See the Organisation for Economic Cooperation and Development report on regulatory reform, Organisation for Economic Cooperation and Development, Paris, 1997.
- ²⁵ Ibid.
- ²⁶ See Olson Mancur, "Power and Prosperity. Outgrowing Communist and Capitalist Dictatorships", Basic Books, 2000.
- ²⁷ "Conformance of Performance and Other Dilemmas in Corporate Governance", a project of the World Economic Forum in partnership with Deloitte Touche Tohmatsu, Davos, Switzerland, 2001.
- ²⁸ P. Wilkes at Innovest Strategic Value Advisors (www.innovestgroup.com).
- ²⁹ See the Secretary-General's speech at the World Economic Forum, Davos, Switzerland, 31 January 1999.
- ³⁰ Ibid.
- ³¹ For reference, see Amartya Sen, "Rational fools: a critique of the behavioural foundations of economic theory", *Philosophical and Public Affairs*, summer 1977; George A. Akerlof and Janet L. Yellen, "Rational models of irrational behaviour", *American Economic Review*, vol. 77, issue No. 2, May 1987; Daniel M. Hausman and Michael McPherson, "Taking ethics seriously: economics and contemporary moral philosophy", *Journal of Economic Literature*, vol. XXXI, June 1993; Amartya Sen, "The formulation of rational choice", *American Economic Review*, vol. 84, issue No. 2, May 1994; Henry J. Aaron, "Public policy, values, and consciousness", *Journal of Economic Perspectives*, vol. 8, issue No. 2 (spring, 1994); *The Economist*, "Business ethics: doing well by doing good", 22 April 2000.
- ³² Amartya Sen, "The formulation of rational choice", *American Economic Review*, vol. 84, issue No. 2, May 1994.
- ³³ Ibid., "Rational fools: a critique of the behavioural foundations of economic theory", *Philosophical and Public Affairs*, summer 1977.
- ³⁴ Henry J. Aaron, "Public policy, values, and consciousness", *Journal of Economic Perspectives*, vol. 8, issue No. 2 (spring, 1994).
- ³⁵ Akerlof and Yellen, (see note 31) write: "In mathematical terms, this is a consequence of the envelope theorem which states, in effect, that the impact

of an exogenous shock of a fully maximizing agent is identical, up to a first order approximation, whether he optimally changes his decision variable in response to a shock, or instead responds inertially. Stated differently, inertial, or rule of thumb behaviour typically imposes losses on its practitioners, relative to rewards from optimizing, which are second-order. Thus, slight relaxation of the standards for "good" model building — so as to tolerate behavioural assumptions entailing suitably small losses from non-maximizing — significantly enlarges the range of behaviour to be considered".

- ³⁶ "Conformance of performance and other dilemmas in corporate governance", a project of the World Economic Forum in partnership with Deloitte Touche Tohmatsu, Davos, Switzerland, 2001.

³⁷ Ibid.

- ³⁸ *The Economist*, "Business ethics: doing well by doing good", 22 April 2000.

**General Assembly
Security Council**

Distr.: General
5 October 2001

Original: English

**General Assembly
Fifty-sixth session
Agenda item 166**

**Security Council
Fifty-sixth year**

Measures to eliminate international terrorism

**Letter dated 5 October 2001 from the Permanent Representative
of Israel to the United Nations addressed to the Secretary-General**

I wish to draw your attention to an attack against Israel along our northern border that jeopardizes international peace and security.

On the evening of 3 October 2001, in a completely unprovoked attack, Hizbullah terrorists launched a cross-border mortar and missile attack from Lebanese territory directed against two positions in the Mount Dov region. Gunmen fired approximately 40 mortar rounds and anti-tank missiles at locations on the Israeli side of the Blue Line.

This attack represents the latest violation of the Blue Line as established by the United Nations and, as such, constitutes a grave threat to peace and security along the border and in the region as a whole. Earlier violations have been detailed in my letters dated 6 July 2001 (A/56/161-S/2001/673), 16 April 2001 (S/2001/367), 16 February 2001 (A/55/792-S/2001/142), 6 February 2001 (A/55/767-S/2001/111), 26 November 2000 (S/2000/1121), 23 October 2000 (S/2000/1011), 19 October 2000 (S/2000/1002) and 7 October 2000 (S/2000/969).

Despite Israel's full and confirmed compliance with Security Council resolution 425 (1978), Hizbullah, with the assistance of both the Lebanese and Syrian Governments, has continually launched attacks against Israel across the Blue Line. These attacks violate basic norms of international law, most recently reaffirmed by Council resolution 1373 (2001), which obligates all States to prevent their territory from serving as a base for terrorist operations. These attacks further violate the provisions of Council resolutions 425 (1978), 426 (1978), 1310 (2000) and 1337 (2001) — which call for the restoration of international peace and security, the return of the effective authority and presence of the Government of Lebanon in the south, and respect for the integrity of the Blue Line as determined by the Secretary-General and endorsed by the Council.

As the Secretary-General observed in his report on the United Nations Interim Force in Lebanon of 22 January 2001 (S/2001/66): "The greatest cause of concern, however, were the attacks across the Blue Line in the Shab'a farms area, which were deliberate acts in breach of the decisions of the Security Council" (para. 18). "The



simplest and most direct way to ensure calm in the area is for the parties to act in accordance with the decision of the Security Council ... This implies that the Government of Lebanon asserts its effective authority and maintains law and order throughout its territory up to the line identified by the United Nations. That is its right and duty, consistently upheld by the Security Council and paid for with the lives of United Nations soldiers" (para. 19).

The continuation of unprovoked cross-border attacks on Israeli territory is due not only to Lebanon's failure to fulfil its international obligations, but to the ongoing support of the Government of the Syrian Arab Republic for Hizbullah's terrorist operations. The Syrian Government continues to permit overland arms transfers to pass through Syrian territory from the Islamic Republic of Iran to Hizbullah's operatives. It allows Hizbullah to maintain terrorist training facilities in the Syrian-controlled Bekaa Valley and grants its terrorists safe harbour in its territory. Moreover, by providing financial, political and organizational assistance, the Syrian Arab Republic has directly enhanced the capability of the Organization to launch attacks against Israel, in blatant violation of established legal norms, including the recently adopted Security Council resolution 1373 (2001), which requires that States refrain from providing any kind of support, whether active or tacit, to persons or entities involved in terror attacks.

In light of the above, and given the renewed global commitment to eradicating the scourge of terrorism, the international community must carefully scrutinize the Syrian Arab Republic's impending candidature for membership in the Security Council. As an occupier of a neighbouring country, recognized as a State that sponsors terrorism, and as a State that grants some of the world's most vicious terrorist organizations safe harbour in its territory, the Syrian Arab Republic's policies stand in blatant contradiction to the principles of the Charter of the United Nations. Member States must take care to ensure that only nations that strictly adhere, both in word and in deed, to the provisions of the Charter accede to membership in such an important organ of the world organization.

Article 23 of the Charter of the United Nations explicitly states that in electing the non-permanent members of the Security Council "due regard must be specially paid, in the first instance, to the contribution of Members of the United Nations to the maintenance of international peace and security". As a State that has adopted the methods of violence rather than negotiation, and continues to do so, the Syrian Arab Republic has consistently acted to undermine international peace and security and should not be permitted to join the Council.

I should be grateful if you would arrange to have the text of the present letter circulated as a document of the fifty-sixth session of the General Assembly, under agenda item 166, and of the Security Council.

(Signed) Yehuda Lancry
Permanent Representative

**General Assembly
Security Council**Distr.: General
5 October 2001

Original: English

**General Assembly
Fifty-sixth session
Agenda item 166****Security Council
Fifty-sixth year****Measures to eliminate international terrorism****Letter dated 5 October 2001 from the Permanent Representative
of Israel to the United Nations addressed to the Secretary-General**

I wish to draw your attention to the latest incident of Palestinian terrorism directed against Israeli civilians.

Yesterday afternoon, a Palestinian terrorist, disguised as an Israeli soldier, disembarked from a public bus in the northern Israeli city of Afula and opened fire on a crowd of civilians. Haim Ben-Ezra, age 78, Tali Ben-Armon, age 20, and Sergei Frieden, age 20, were killed in the attack, and 13 others were wounded, 1 of them critically.

This attack is the latest incident in the ongoing Palestinian terrorist campaign against Israel that has been detailed in my letters dated 24 September 2001 (A/56/406-S/2001/907), 20 September 2001 (A/56/386-S/2001/892), 17 September 2001 (A/56/367-S/2001/875), 7 September 2001 (A/56/346-S/2001/858), 4 September 2001 (A/56/331-S/2001/840), 30 August 2001 (A/56/325-S/2001/834), 27 August 2001 (A/56/324-S/2001/825), 13 August 2001 (A/56/294-S/2001/787), 9 August 2001 (A/56/286-S/2001/780), 8 August 2001 (A/56/280-S/2001/775), 6 August 2001 (A/56/272-S/2001/768), 27 July 2001 (A/56/225-S/2001/743), 26 July 2001 (A/56/223-S/2001/737), 17 July 2001 (A/56/201-S/2001/706), 13 July 2001 (A/56/184-S/2001/696), 3 July 2001 (A/56/138-S/2001/662), 2 July 2001 (A/56/131-S/2001/656), 21 June 2001 (A/56/119-S/2001/619), 19 June 2001 (A/56/98-S/2001/611), 18 June 2001 (A/56/97-S/2001/604), 13 June 2001 (A/56/92-S/2001/585), 11 June 2001 (A/56/91-S/2001/580), 4 June 2001 (A/56/85-S/2001/555), 30 May 2001 (A/56/81-S/2001/540), 25 May 2001 (A/56/80-S/2001/524), 18 May 2001 (A/56/78-S/2001/506), 11 May 2001 (A/56/72-S/2001/473), 9 May 2001 (A/56/69-S/2001/459), 1 May 2001 (A/55/924-S/2001/435), 23 April 2001 (A/55/910-S/2001/396), 16 April 2001 (A/55/901-S/2001/364), 28 March 2001 (A/55/863-S/2001/291), 27 March 2001 (A/55/860-S/2001/280), 26 March 2001 (A/55/858-S/2001/278), 19 March 2001 (A/55/842-S/2001/244), 5 March 2001 (A/55/821-S/2001/193), 2 March 2001 (A/55/819-S/2001/187), 14 February 2001 (A/55/787-S/2001/137), 13 February 2001 (A/55/781-S/2001/132), 2 February 2001 (A/55/762-S/2001/103), 25 January 2001 (A/55/748-S/2001/81), 23 January 2001 (A/55/742-S/2001/71), 28 December 2000



(A/55/719-S/2000/1252), 22 November 2000 (A/55/641-S/2000/1114), 20 November 2000 (A/55/634-S/2000/1108) and 2 November 2000 (A/55/540-S/2000/1065).

The State of Israel holds Chairman Arafat and the Palestinian leadership responsible for this attack in light of its relentless incitement of the population to violence, its open collusion with declared terrorist groups, and its adamant refusal to take concrete measures against known terrorists. Since the outbreak of violence over a year ago, the Palestinian Authority has released convicted terrorists from prison, openly aided and abetted them in carrying out their murderous aggression, and granted them safe harbour in the territory under its control.

Although Chairman Arafat called for a ceasefire last week following a meeting with Israel's Minister of Foreign Affairs, Shimon Peres, not a single day has passed without an attack on Israeli civilians. Despite its claims, the Palestinian leadership has failed to take concrete actions to halt such attacks, to prevent terrorists from operating freely in the territory under its control, and to put an end to anti-Israeli and anti-Jewish incitement in the official Palestinian media.

Israel again calls on the Palestinian leadership to adhere to its commitment to renounce the use of violence and terrorism and to control and punish those who continue to engage in such practices. Israel further calls on the international community to remind the Palestinian Authority of the commitment, enshrined in Chairman Arafat's letter dated 9 September 1993, to renounce the use of violence and terror and to settle all outstanding issues through negotiations. This commitment cannot be fulfilled by mere lip service, but requires the fulfilment of obligations to prevent Palestinian territory from being used as a base for terror operations and return to the path of peaceful negotiations.

I should be grateful if you would arrange to have the text of the present letter circulated as a document of the fifty-sixth session of the General Assembly, under agenda item 166, and of the Security Council.

(Signed) Yehuda Lancry
Permanent Representative

**General Assembly**Distr.: General
5 October 2001

Original: English

Fifty-sixth session

Agenda item 105

Globalization and interdependence

Role of the United Nations in promoting development in the context of globalization and interdependence**Report of the Secretary-General*****I. Introduction**

1. In the course of the past several months, and in particular in August and early September 2001, it became evident that the slowdown in the world economy was becoming much deeper than had been expected at the beginning of the year. Industrial production and business and consumer confidence were falling in many developed countries, and several commentators were forecasting major declines in high-profile indicators, such as equity prices and the flow of private foreign investment to developing countries.

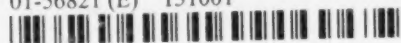
2. Assessments now suggest a substantial decline in global growth. Practically every forecast made towards the first half of 2001 had to be modified in the third quarter of the year, including forecasts by the United Nations and, the International Monetary Fund. Whereas the *World Economic and Social Survey 2001*¹ forecast a growth for 2001 of 2.4 per cent for the world economy, this number is now being revised to 1.4 per cent, with forecasts for 2002 indicating perhaps a growth rate of 2 per cent.

3. These revised figures do not take into account the potential impact on the global economy of the terrorist attacks on the United States of America, on 11

September 2001. The precise impact will depend on how these will affect trade, business and consumer confidence, investments and the flow of capital among countries. Certain industries are, at least in the short term, experiencing a very direct impact, most notably the travel and tourism industries.² Events over the forthcoming few weeks will therefore be essential for assessing the direction in which the world economy is moving.

4. The present developments take on particular significance in the context of globalization and interdependence. Recent experiences, such as the Asian financial crisis of 1997-1998, its recovery phase, and the current slowdown in the global economy, show the macroeconomic dimension of globalization and its impact on reducing or amplifying the normal cycles of business activity in the industrialized world and in developing countries. As a result of these experiences, concerns about globalization are focusing increasingly on the structural, rather than cyclical, vulnerabilities of countries to globalization. Such vulnerabilities arise from various areas, including finance and investment, international trade, natural disasters, or from substantial changes in the nature of the economic system.³ Growing attention is therefore being placed on the processes and capacities for managing the interaction of trade and finance. The forthcoming International Conference on Financing for

* The footnote requested by the General Assembly in resolution 54/248 was not included in the submission.



Development and its preparatory process provide a major opportunity for addressing these interrelated issues from a developmental perspective.

5. The present report is submitted in response to General Assembly resolution 55/212 of 20 December 2000, in which the Assembly requested the Secretary-General to prepare, in close collaboration with the United Nations Conference on Trade and Development (UNCTAD) and other relevant organizations, an analytical report on the effect of increasing linkages and interdependencies among trade, finance, knowledge, technology and investment on growth and development in the context of globalization, containing action-oriented recommendations, including on appropriate development strategies at both the national and international levels, and to submit it to the Assembly at its fifty-sixth session. Contributions from UNCTAD and a number of other United Nations organizations, in particular the Economic and Social Commission for Asia and the Pacific, were incorporated into the present report.⁴

6. The complex issue of globalization was addressed by the General Assembly at its earlier sessions, particularly since the holding of its first high-level dialogue, on the social and economic impact of globalization and interdependence and their policy implications during its fifty-third session. Subsequently, the Assembly decided, by resolution 53/169, to place the important issue of globalization on its agenda, and to address specifically the role of the Organization in promoting development in the context of globalization and interdependence, as well as the issue of promoting coherence, complementarity and coordination of economic and development issues at the global level in order to optimize the benefits and limit the negative consequences of globalization and interdependence. These issues were examined in the reports of the Secretary-General (A/54/358 and A/55/381), with the latter report focusing on information and communication technology (ICT).

7. At its present session, the Assembly addressed the theme, "Responding to globalization: facilitating the integration of developing countries into the world economy in the twenty-first century" within the framework of the second high-level dialogue, on strengthening international economic cooperation for development through partnership held on 20 and 21 September 2001. The dialogue focused on two of the most timely and relevant aspects of the issue, namely,

promoting the integration of developing countries into the world economy and generating new public and private financing resources to complement development efforts; and enhancing the integration of developing countries into the emerging global information network by facilitating access to information and communication technology for developing countries.

8. Responding to the most recent mandate of the General Assembly in resolution 55/212, and taking into account that globalization and its various aspects have been extensively discussed within the United Nations system and elsewhere, section II of the present report seeks to analyse the increasing linkages and interdependencies among the major components of the process of globalization referred to by the Assembly in that resolution (i.e., trade, finance, knowledge, technology and investment) and to explore possible policy responses. Section III of the report, prepared by the secretariat of UNCTAD, focuses on coherence and consistency of policies for the prevention and management of financial crises. This section, as well as other parts of the report dealing with issues of finance, complement several recent United Nations documents, in particular the report of the Secretary-General on international financial architecture and development, including net transfer of resources between developing and developed countries (A/56/173) and its addenda (containing a note by the United Nations Development Programme (UNDP) on financial stability as a public good (A/56/173/Add.1) and information on work undertaken by UNCTAD in relation to long-term private flows (A/56/173/Add.2)), and should be read in conjunction with them. Also of direct relevance are the report submitted by the Secretary-General to the Preparatory Committee for the High-level Intergovernmental Event on Financing for Development at its second substantive session (A/AC.257/12) and the forthcoming report of the Preparatory Committee for the International Conference on Financing for Development. The detailed conclusions and recommendations made in these reports are not repeated herein. The recommendations contained in section IV below focus on enhancing the role of the United Nations in promoting the national and international development strategies that minimize the risks and take advantage of the opportunities emerging from globalization.

II. Linkages and interdependence

9. In recent years, it has become clear that processes of globalization have left few countries untouched. Economic, social, political and cultural transactions across national boundaries among citizens, enterprises and Governments have been progressively widening and deepening. Realizing that these processes were inexorable, many developing countries have sought to benefit from globalization and have thus based their development strategies on increasing integration into the global financial, trading and information exchange systems through liberalization of their economies.

10. The complexity of the phenomenon of globalization and, in particular, the linkages and interdependence of its components, present a daunting challenge to policy-making and implementation, both at the national and international levels. The various elements — trade, finance, investment, technology and development — tend to be under the purview of different ministries and agencies at the national level, and different organizations and intergovernmental bodies within the United Nations system. The challenge of bringing coherence to policy-making, at all levels, is thus among the first and foremost challenges posed by globalization. The consistency and focus with which the General Assembly has been addressing the issue of globalization in all its complexity in recent years testifies to its determination to advance the debate from a general understanding of the nature of globalization and its policy implications, through addressing its major individual components, such as ICT, to a comprehensive and integrated analysis aimed at producing action-oriented decisions and recommendations.

11. Globalization has made the task of pursuing development even more complex than before, primarily because of the increasing interaction among the various components that characterize it. For example, world trade is influenced in a major way by, in addition to existing international and national trade regimes, the results of investment decisions, by the availability of finance, by evolving technological infrastructures that facilitate trade, and by the rapidly growing role of knowledge as a production input and the enhanced ability to tap dispersed sources of knowledge and of knowledge-related activities. Similarly, investment is determined by, in addition to investment regimes and investment climate and risks, such factors as export

prospects, the availability of tradable knowledge, greater diffusion of technological innovation and, again, evolving technological infrastructures. A policy approach that addresses just one or some of these factors is likely to be only partially effective, at best.

12. As stressed in the report of the Secretary-General to the Millennium Assembly (A/54/2000), the more integrated global context demands a new degree of policy coherence. The international financial architecture needs strengthening, as does the multilateral trade regime. Greater consistency must be achieved among macroeconomic, trade, aid, financial and environmental policies, so that all support the common aim of making globalization work for all.

13. With growing interdependence, Governments need to work together with all stakeholders to ensure that the gains from globalization are widely and equitably distributed and, in particular, reach developing countries. They also have to ensure that the gains are not quickly reversed and that countries are not pushed back into the quagmire of poverty. While States remain the key players in managing the globalization process, the role of civil society is becoming more important, since global problems can only be resolved through effective involvement and partnerships at all levels.

14. Despite such setbacks as the Asian crisis, experience has shown that countries that have successfully integrated their economies into the global economy and, as a result, attracted foreign investment and gained access to knowledge and global information networks, have achieved higher growth over time and made significant strides in alleviating poverty.

15. On the other hand, countries that have not benefited from the process of globalization tend to lack the structural and policy foundation necessary to take advantage of more open and integrated trade, investment and financial regimes. These countries, especially the least developed countries, by and large face a global trading environment that does not address their concerns in a transparent and equitable manner. In addition, developing countries have inadequate capacity to manage the globalization process, including lack of flexibility in economic and social structures and lack of adequate social protection mechanisms, which exacerbate their existing vulnerability, in particular of the poor, to exogenous shocks.

16. The following sections of the present report seek to outline some of the main factors that affect trade, finance, knowledge, technology and investment, with a view to identifying the linkages and interdependencies among them and their implications for growth and development.

A. Trade

17. The rapid growth of international trade in goods, services and finance, plus the prevalence of new technologies and innovative modalities for production and marketing in the global marketplace, are among the most visible features of the current patterns of globalization. Such cross-border interactions have contributed to the growth and recovery of the economies of many countries, including a number of developing countries, in particular in East and South-East Asia. The maintenance of an open liberalized domestic economy was decisive in explaining, for instance, East Asia's growth. It not only allowed for large inflows of foreign direct investment (FDI) but also for the rapid export growth generated to a large extent by foreign-invested companies. FDI inflows have been particularly high in those countries that also witnessed large export growth. Generally speaking, those countries that failed to open their economies and adopt an effective export promotion strategy also failed to reap the benefits of the globalization process.

18. Provided that appropriate policies are implemented, an institutional framework is established, and laws, rules and regulations are duly enforced, external trade is generally seen as a contributor to alleviating absolute poverty in most developing countries through a rapid expansion in output and employment in labour-intensive export industries and related activities. There are, as well, increases in real wages for labour, which is the primary asset that poor households possess.

19. Over the past decade, developing countries have indeed reduced the level and dispersion of tariffs, dismantled non-tariff trade barriers and increased reliance on market forces to allocate foreign exchange. Foreign participation is being allowed to improve the level of technology and efficiency and also to generate the financing for the required investments. These policies, associated with other market reforms, were associated with an acceleration of output and export growth. However, owing to continuing barriers to

products of export interest to developing countries, developing countries remain at a competitive disadvantage in international trade and in the acquisition of the most recent production technologies and methods, which further exacerbate their marginalization from the emerging knowledge-based global economy.

20. This is particularly true for many commodity-exporting developing countries which, owing to weakening world demand, are confronted with declining prices for many primary commodities. These countries must deal with the problems of both a downward trend in commodity prices in the long term and high volatility in the short term. Many small, low-income economies confront not only the problem of mitigating the short-term volatility in international commodity markets but also the challenge of diversifying their economies in a period of increasingly specialized global production.

21. A graphic example of the problems that developing countries must deal with in trying to integrate into the emerging global knowledge-based and networking economy is participation in production networks. The growing production and service networks of multinational corporations across the world, coupled with the growing trend in mergers and acquisitions, have led to the emergence of complicated global and regional business networks that can have a positive or negative impact on the local economy. In addition, increased intra-firm trade and closer links between assemblers and component producers means that competition is now more between systems and networks than among individual firms. However, many developing countries are not part of these systems and networks. They are thus left out of the global systems of production and trade. Many exhibit low or negative growth rates in export earnings. Lessons could be learned from examples of successful development of small firms which are based either on their complementarity with large-scale firms or on the alliance of smaller firms in clusters. This is a key area in which growth can be enhanced by increasing the productivity and income of otherwise underemployed workers.

22. Trade flows, linked with finance, investment and technology, can induce rapidly spreading consequences, positive as well as negative, across borders. In the Asian experience, slower growth in high-tech exports played an important role in the build-

up of external fragility, and the impact of the subsequent financial shock was amplified through intraregional trade. On the other hand, the positive impact of trade flows is equally powerful, as exemplified in the Asian recovery, in which the import demand of the United States of America served as a driving force for the recovery of many countries hit by the 1997-1998 crises. In 2000, the growth of United States imports reached double-digit figures for the third consecutive year. The benefits to developing countries and economies in transition were particularly marked, their total export volumes being estimated to have risen by over 10 and 15 per cent, respectively.⁵

23. However, such interdependency can be a double-edged sword. Growth of United States import demand is slowing significantly in 2001 and thus many economies that have close trade connections to the United States, such as those in the Americas and South-East Asia, are experiencing a slowdown in the growth of their exports. Especially hard hit were exports of countries specializing in ICT products. Moreover, economic growth has also slowed or ceased in other large economies and this, too, has weakened global demand for the exports of developing countries. This is reflected, *inter alia*, in weak international commodity prices⁶. Other international linkages, such as stagnating private capital flows, rising risk premiums on external financing for some developing countries, softening commodity prices and inadequate access to global information infrastructure further inflict damage on fragile economies.

24. Globalization, together with interdependence, amplifies both upswings and downswings, thereby placing ever greater demand on policy formulation, coherence and coordination. In this regard, the issues related to the implementation of the commitments and provisions undertaken in the Uruguay Round of trade negotiations concerning products of interest to developing countries and the launching of a new trade round, currently being discussed at the World Trade Organization (WTO), are of crucial importance to the future of the world economy and to the growth and development of developing countries. In this regard, a productive, balanced and development-oriented outcome of the ministerial meeting of WTO in Qatar will be essential.

B. Finance

25. The globalization of financial markets has been spurred by ongoing deregulation of national financial markets, in particular of capital and exchange controls, and fuelled by rapid financial innovation that has facilitated foreign portfolio investments and other cross-border movements of capital. Although net international capital flows have not grown as explosively as have gross flows, the volume of international financial transactions has been extraordinary by any measure. For instance, the average daily turnover in the foreign exchange market has grown from about US\$ 200 billion in the mid-1980s to around US\$ 1.2 trillion in the mid-1990s, equivalent to about 85 per cent of all countries' foreign exchange reserves. Technological developments have further accelerated the integration of global financial markets, leading to paperless trading in fully computerized and automated stock exchanges across the world.

26. The globalization of financial and capital markets has facilitated access to capital, providing enterprises in developing countries increased access to the international bond and equity markets in addition to lending funds originating from international banks. At the same time, liberalization of capital markets has led to large inflows of foreign portfolio investments that provide foreign investors with a useful tool to hedge their operations and risk, but are short-term and volatile in nature. The Asian financial crisis painfully demonstrated the potentially destructive effects that such flows can have on national economic development. As a response to the crisis, some Governments tried to curb and control the inflows of such risk capital while continuing to encourage FDI.

27. Developing countries and economies in transition have been highly vulnerable to financial volatility, where there is rapid expansion and diversification of financial flows, often followed by abrupt reversals. This pattern has been aggravated, in some cases, by premature liberalization of the capital account, fragile domestic financial structures, and weak financial regulation and supervision. Extended financial booms build up strong pressures on aggregate domestic demand, and that makes macroeconomic imbalances unsustainable during the ensuing financial contraction. They also tend to weaken financial structures, since increasing risks are often underestimated. Under these

conditions, a downswing may result in a domestic financial crisis which consumes large amounts of the scarce resources that could otherwise be available for development and which severely affects economic activity and investment for several years. The impact of financial crises on the real economy in developing countries and economies in transition is thus far larger than in developed market economies.

28. The financial crises have clearly shown that abrupt or premature liberalization of the capital account is inappropriate for developing countries and economies in transition. Strong domestic financial systems, regulation and supervision are essential elements in guaranteeing appropriate liberalization. However, even with strong fundamentals in these areas, it has proved quite difficult for the developing countries and economies in transition that liberalize the capital account to adapt to the conditions generated by volatile international capital flows, which may in fact weaken or destroy those fundamentals.

29. As the liberalization of financial markets facilitates access to international capital, the need for a strong and viable financial sector becomes more crucial than ever for effectively intermediating the global financial flows, in particular volatile short-term transactions. The 1997 crisis demonstrated the enormous impact of the financial sector on the development process, including the perils arising from contagion. It highlighted the interdependence of financial markets and prompted the discussion on the need to reform the global financial architecture, including the creation of an early warning system for impending financial crises.

30. Such reform should encompass a number of interrelated aspects, including international liquidity management, global consistency of macroeconomic policies and financial regulation, and prevention and management of financial crises, as well as finance for development and resolution of outstanding debt issues. With regard to prevention and management of financial crises, reforms in this area must be addressed with a sense of urgency in six key areas: (a) improved consistency of macroeconomic policies at the global level; (b) reform of IMF aimed at providing adequate international liquidity in times of crisis; (c) adoption of codes of conduct, improved information, and financial supervision and regulation at national and international levels; (d) preservation of the autonomy of developing and transition economies with regard to capital account

issues; (e) incorporation of internationally sanctioned standstill provisions into international lending; and (f) design of a network of regional and subregional organizations to support the management of monetary and financial issues.⁷

31. A central element of a new international financial architecture is the development of regulatory and supervisory mechanisms that will better correspond to the current globalized private capital and credit markets. Such mechanisms should be global in the sense of including all countries (and particularly source countries), as well as different financial institutions and markets, so as to avoid regulatory gaps and asymmetries. However, due account should be taken of different national financial structures and traditions as regards financial regulation and supervision.

32. Stronger regional and subregional institutions can play a significant role in terms of the stability of the world financial system. The experience of Western Europe suggests that regional financial organizations and arrangements can play an essential stabilizing role. More limited experience at a regional level, including that of regional and subregional development banks and a few reserve funds, indicates that they can also play an important role in a new international financial architecture, both in crisis management and in finance for development. The swap arrangements of the Association of South-East Asian Nations with China, Japan and the Republic of Korea provide one example of a subregional support system to deal with emergency liquidity problems. Strong regional reserve funds would at least partially deter would-be speculators from attacking the currencies of individual countries and thus, among other dire effects, from threatening regional trade and financial relations. They could also supplement IMF funds in times of difficulty. Thus, on both the demand and the supply sides, they could reduce the need for IMF support. Moreover, regional institutions and peer review could also play a central role in surveillance, both of macroeconomic policies and of domestic financial regulation and supervision. Indeed, such surveillance and peer review could be more acceptable to countries than that of a single, powerful international institution. It would contribute towards a more balanced globalization.

C. Investment

33. Foreign direct investment has contributed to the globalization of financial markets as leading corporations set up networks of businesses, which are often quoted on the various stock exchanges in the world. FDI has also contributed to the growth of world trade, as well as to the increase in the volume and diversification of global financial flows due to intra-firm shipments and concomitant capital flows among countries. At the same time, the surge in FDI flows would have been impossible without the liberalization of trade and investment regimes and rapid developments in ICT that have facilitated the expansion, through FDI, of production and marketing operations of business enterprises across national borders.

34. Flows of FDI now far surpass exports. Sales of foreign affiliates have grown faster than world exports of goods and services, and the ratio of the volume of world FDI stocks to world gross domestic product (GDP) has grown twice as fast as the ratio of world imports and exports to world GDP, which suggests that the expansion of international production has deepened the interdependence of the world economy beyond that achieved by international trade alone. FDI has become a major part of global private capital flows to developing countries and has exceeded official flows, such as official development assistance. However, FDI continues to be concentrated among developed countries and less than a dozen of the largest developing countries economies.

35. In addition to providing a source of finance and capital, FDI also serves as a conduit of knowledge and technology. Through their considerable research and development efforts, their links to the network of research laboratories and their ability to negotiate the labyrinth of the international patent system, the multinational corporations have not only been the drivers of FDI but have also pushed technological developments.

36. In the economies of many developing countries, FDI has made a significant contribution to economic growth, employment generation, training new skills and acquiring expertise. It can also facilitate the transfer of technology to developing countries and increase their access to international markets. However, the concentration of FDI in a few of the largest developing economies means that many of the least

developed countries are not able to benefit fully from the transfer of technology and access to export markets. The least developed countries remain heavily dependent on official development assistance, which has declined over the years. FDI flows are also subject to the vagaries of the market. In the current economic climate, there has been a significant drop in the levels of FDI to the emerging markets and developing countries, especially the least developed countries.

37. Attracting FDI needs a commitment on the part of the host country to create the conditions that are conducive to such flows, including good governance and transparency, sound macroeconomic conditions, and tax and fiscal policies. It also entails the development of appropriate national and/or regional institutions. For example, the establishment of national and regional investment guarantee agencies, co-insuring with the Multilateral Investment Guarantee Agency or working independently, should be encouraged to provide insurance against non-commercial risks on attractive terms. Such agencies can be set up as joint ventures with the private banking and insurance sector. Working alongside one-stop investment promotion agencies, such agencies can be effective tools in lowering the information and entry costs for investors and raising expected returns on investment, thereby increasing the potential volume and duration of investment flows.

38. Equity is a major concern in the spread of FDI. There is a widely shared need for global action to spread more widely the flows of FDI and to make such flows development-oriented. These concerns could be addressed through a multi-stakeholder alliance that could propose practical steps towards the realization of these twin goals.

D. Technology and knowledge

39. The pace of technological change, especially in the ICT sector in recent years, has led to revolutionary changes in the processing and dissemination of data and to the emergence of an information society, with a profound effect on production, services, organization of labour and the environment. ICT has increased the information available and improved the quality of information for the purposes of sound decision-making by individuals, firms and Governments. Knowledge has become a source of competitive advantage and is increasingly embedded in the production process.

40. Information and communication technology has allowed greater mobility and flexibility in the movement of goods and services, has made production processes more flexible, and has allowed more efficient utilization of resources and thus contributed to higher productivity and economic growth. The importance of ICT to the process of globalization, and especially the linkages among trade, finance, investment and development, cannot be overemphasized.

41. Owing, in no small measure, to rapid increases in telecommunications and computer-based technologies and products, cross-border financial flows have expanded at a remarkable pace. Changes in ICT, together with new financial instruments and risk-management techniques, have enabled a wide range of financial and non-financial firms to manage their financial risks more effectively. Complex financial instruments such as derivatives would not have flourished without the technological advances of the past decade. Without high-powered data-processing and communication capabilities, derivatives could not be priced properly, the markets that they involve could not be arbitrated properly, and the risks that they give rise to could not be managed at all.

42. The rapid expansion in cross-border banking and finance should not be surprising, given the extent to which low-cost information processing and communication technology has improved the ability of customers in one part of the world to avail themselves of the borrowing, depositing or risk-management opportunities offered anywhere in the world on a real-time basis. These developments enhance the process whereby an excess of saving over investment in one country finds an appropriate outlet in another. In short, they facilitate the drive to equate risk-adjusted rates of return on investments throughout the world. They thereby improve the worldwide allocation of scarce capital and, in the process, engender a huge increase in risk dispersion and hedging opportunities.

43. Information and communication technology has enabled the acceleration of global integration of production processes, which has increasingly contributed to the growth of world trade. Through the use of ICT, companies have been able to set up global production and service networks and, in the process, link numerous small and medium-sized enterprises, including in the developing countries and in economies in transition, to the global marketplace. Further advances in the access of developing countries to ICT

and, in particular, electronic commerce, have the potential of significantly enhancing their participation in the global trade in goods and services. Expansion of the Internet and increased access to markets will lead to greater competition in both production and services geared to local or to foreign markets. Access to ICT will increasingly become a determinant of investment by foreign enterprises seeking opportunities in developing countries.

44. Participation in the competitive knowledge-based global economy will increasingly require a certain level of electronic readiness (i.e., a business environment that is conducive to Internet-based commercial activity) as one of the factors of production. However the picture is very bleak for many developing countries which are far from being "e-ready", although they may be in the process of liberalizing telecommunication markets. This digital divide reflects an economic divide at the national and global levels that, in the absence of adequate levels of investment, resource and technology transfer, as well as appropriate policies and regulatory environments, will continue to increase to the detriment of the poor, especially in developing countries.

45. The Governments of developing countries are confronted by huge challenges in bringing their countries into the information age. The enormous investments required in the necessary human, physical and institutional infrastructure is beyond the capacity of most countries. They require the technical and financial assistance of the developed countries and the international donor community, and the active participation of the private sector. Policies appropriate to national economic structures, production bases and social needs should be implemented urgently in order to address structural deficiencies that hinder the ability of these countries to participate in the knowledge-based global economy.

46. In order to prevent further marginalization and the exacerbation of the digital divide, it is vital to ensure developing countries effective and affordable access to information and knowledge. In this context, there is a need to identify ways and means of providing and improving effective access to and transfer of knowledge and technology for such countries.

47. There is a clear sense that the new technologies, and the financial instruments and techniques that they have made possible, have strengthened

interdependencies between markets and market participants, both within and across national boundaries. As a result, a disturbance in one market segment or one country is likely to be transmitted far more rapidly throughout the world economy than in previous eras.

48. It is crucial, in particular in the light of the global economic slowdown, that the international trading system continue its difficult evolution towards fairness and openness. The issues relating to the implementation of the Uruguay Round provisions relating to products of export interest to developing countries need to be addressed. In this regard, the productive, balanced and development-oriented outcome of the ministerial meeting of WTO in Qatar would be crucial.

III. Coherence and consistency of policies for the prevention and management of financial crises

49. The accelerating pace of economic interdependence over the past two decades means that the impact of economic policies and performance in one part of the world economy can now be felt far more quickly and spread far more widely than was the case when the international system was taking shape after the Second World War. Accordingly, pursuing domestic policy goals with due regard for the cross-border effects of the actions taken in pursuit of them remains a key to overall global economic stability. With a growing and more diverse group of countries actively participating in the international economy, the chance for possible policy conflicts has increased and the threat of destabilizing shocks has heightened. However, the policy decisions of a small number of industrialized economies still have a disproportionate bearing on the overall economic prospects of the international system.

50. Trade provides one channel for transmitting shocks across countries. This channel has widened considerably with the reduction of legal, geographical and political barriers to trade. Policy makers in developed countries, where the bulk of world trade is concentrated, continue to worry about the negative impact of external shocks, such as higher oil prices. However, the general trend in terms of trade has in recent years been to their advantage, and the limited

trade links across the main industrial blocs means that shocks from this source are easier to contain than in the past. With an increasing number of developing countries turning to export-oriented development strategies, however, the health of markets in major industrialized countries has become more important for their macroeconomic stability and growth prospects. Slow growth in these markets and continued restrictions on products for which developing countries have competitive advantages, together with increased competition among developing countries themselves, means that many developing countries continue to be very vulnerable to external shocks, in particular to those resulting from abrupt policy changes in the major industrialized economies.

51. The shape of the current global trading system reflects a long and steady evolution over the past 50 years. Global financial markets, by contrast, began their explosive global expansion only after the collapse of the Bretton Woods system in the 1970s. Although private capital flows have been greatest among the advanced industrial economies, the size, composition and distribution of flows to developing countries have also been transformed during the past three decades. Bank credit was initially the most important form of private capital flow to developing countries but, since the debt crisis of the early 1980s in particular, rapid liberalization and privatization has encouraged sizeable equity and FDI flows, albeit concentrated on a small number of so-called emerging markets. In theory, economic fundamentals are expected to be the overriding influence on private capital flows. In reality, short-term profit opportunities, speculative pressures and herd behaviour have also exerted a powerful influence, bringing considerable instability to these flows.

52. Experience suggests that developing countries are particularly vulnerable to reversals of external capital flows and that the scale of the damage can be particularly large. This is partly owing to their high level of net external indebtedness and the higher share of that debt denominated in foreign currencies. It also reflects the small size and institutional fragility of financial markets in many developing countries, so that the entry and exit of even medium-sized investors from industrialized countries is capable of causing considerable price fluctuation.

53. The fact that recent crises in emerging markets have been provoked by a reversal of capital inflows

greatly complicates the adjustment process in these countries. This process often starts not with unsustainable policies, but with the introduction of policies designed to maintain macroeconomic stability and to be integrated more quickly into the global economy. In the absence of effective controls over capital flows, macroeconomic signals, which are taken as success indicators when capital is flowing into a country, can quickly be transformed into warning signs when market sentiment shifts; currency appreciation, rising asset prices and an extension of bank lending which accompany, and further encourage, large capital inflows, can be followed by a vicious spiral of depreciation, price collapse and a crisis in banking when capital flows out.

54. Such crises in emerging markets can be triggered by external shocks; indeed, they have often been connected with major shifts in exchange and interest rates in the major industrialized countries. This was true not only for the debt crisis of the 1980s, but also for more recent boom-and-bust cycles in capital flows to Latin America, East Asia and Eastern Europe. However, given the global reach of markets, contagion has become more pervasive. Emerging markets have many more trade and financial ties with each other than they had in the past. The Asian financial crisis was compounded by regional trade and currency links which helped to spread and intensify a vicious spiral of declining asset prices and output losses to neighbouring countries, including those with strong records of macroeconomic responsibility. In addition, financial links have opened up channels of contagion back to creditor countries; concerns about the exposure of banks and other financial institutions in advanced industrialized economies accompany each outbreak of crisis in an emerging market. In the Russian bond crisis, those concerns were great enough to trigger a swift response from the Federal Reserve in the United States.

55. The increasing frequency of financial crises is itself a major concern for policy makers but, in addition, the intertwining of trade and financial flows means that the consequences of shocks are becoming much more difficult to predict and manage. Not only was the ferocity of the East Asian crisis in terms of lost output and social damage much greater than was expected, but the benefits derived by advanced countries through movements in favourable terms of

trade and capital reflux in search of less risky investments were also unforeseen.

56. The promise that floating among the major reserve currencies would bring stability, orderly balance-of-payment adjustments and greater policy autonomy has not been realized. Instead, currency misalignments have fed into growing macroeconomic imbalances among the big industrial blocs, greatly complicating economic management. For developing countries, in which there is a structural tendency for deficits to rise quickly as growth accelerates, the liberalization of trade and capital flows has meant that the choice of exchange-rate regime has become a politically charged issue. Moreover, with the major currencies experiencing large swings, neither floating nor fixing holds out much hope of a stable solution for developing countries.

57. A more interdependent world economy has become a much more volatile one. Indeed, according to IMF, trends in the 1990s point to a global economy in which there is a potential for excesses to develop in asset markets and the private sector, and therefore for recurrent macroeconomic instability even when macroeconomic policies are reasonably well disciplined.⁸

58. Against this setting of growing global interdependence and instability, the search for greater policy coherence takes on added importance. The exposure of developing countries to sudden shifts in trade or financial flows is made all the more worrisome given their diminishing policy autonomy. Multilateral action could provide an alternative means of support. However, multilateral surveillance has become increasingly asymmetric as industrialized countries have dropped any financial reliance on the Bretton Woods institutions. An original concern with facilitating timely economic adjustments for all members through a shared set of rules has shifted to the promotion of policy instruments for developing countries, based on a universal set of economic principles that provide the basis for identifying and admonishing governmental errors and restoring market confidence.

59. Despite its much more intrusive presence in developing countries, the success of multilateral surveillance in preventing financial crises has been limited. This reflects the continuing limitations of multilateral institutions in handling the problems posed

by large private capital flows. To date, faith in financial liberalization has meant insufficient attention to the sustainability of private capital flows and to the harmful effects on recipients of their instability. However, it is also closely related to inadequate surveillance of policy actions by the larger industrialized economies, which are the major creditor countries.

60. This is in partial contrast with developments in the trading system. Here, the steady move towards a more liberal system has also been marked by persistent biases against developing countries. However, a degree of multilateral surveillance has evolved which, in theory at least, allows for even-handed treatment among countries regardless of their economic and political status and, in some areas, recognizes the value of special treatment for poorer countries. With no comparable structure for global finance even being discussed, let alone put in place, the political and economic weight of creditor countries continues to dictate the current workings of the multilateral financial institutions.

61. A more stable system of exchange rates and payments positions calls for a minimum degree of coherence among the macroeconomic policies of the major industrialized countries. However, the existing modalities of multilateral surveillance do not include ways of attaining such coherence or dealing with unidirectional impulses resulting from changes in the monetary and exchange rate policies of the United States and other major industrialized countries. What is needed is a more balanced system, one which can identify global fault lines, wherever their source or location. This requires closer scrutiny of the policy choices of the major industrialized countries. It also requires more careful attention in IMF surveillance to the build-up of financial fragility and external vulnerability linked to private capital flows. Here, surveillance will need to pay greater attention to the sustainability of capital flows, and the Fund's recommendations should include, where needed, control over such inflows.

62. With the extension of IMF surveillance to include issues in the financial sector, international codes and standards covering financial activities and in related areas, such as data dissemination and fiscal transparency, are taking on greater importance in the search for global financial stability. However, they also carry dangers, particularly where consensus and

voluntary enforcement are compromised. Already, implementation of standards has been linked to conditions of eligibility for access to multilateral lending facilities. Smooth progress in global initiatives on standards requires even-handedness regarding the various aspects of their application among all of the parties involved, including both debtors and creditors. In particular, developing countries will need to be given a much stronger voice in the relevant multilateral institutions and standard-setting bodies so as to ensure that their concerns are fully taken on board and that a meaningful level of participation is achieved.

IV. Conclusions and recommendations

63. The conclusions and recommendations below should be seen in the context of the preparatory processes for at least two other events which will provide much greater depth and detail than can be achieved in the present report. Both the negotiations under way in preparation for the ministerial meeting of WTO at Doha, Qatar, from 9 to 13 November 2001, as well as the preparatory process for the International Conference on Financing for Development, scheduled to be held at Monterrey, Mexico, from 18 to 22 March 2002, provide major opportunities for the international community to address most if not all of the core issues that arise from the dynamic interaction of trade, finance, technology and investment and that shape globalization and interdependence.

64. The key challenge that must be met in these and other international policy forums is to place development at the centre in considering how globalization is managed, and not to view it as a by-product of globalization. Development goals should shape the framework of globalization rather than allowing the blind forces of globalization to define development outcome. This implies not only ensuring greater policy coherence at the global and national levels, but also making the international trade, finance and technology regimes much more responsive to development.

65. At the international level, the United Nations, given its universality and broad mandate, has an important role to play in promoting policy coherence with the explicit goal of placing development and poverty eradication at the centre of policies and processes related to global integration. Also, coordination needs to be strengthened so as to ensure

the most efficient and effective use is made of international assistance, both financial and technical. Improved coordination of and cooperation among donors and international organizations is a necessity at the national, regional and international levels.

66. Given its system-wide coordination functions and its growing role as a central global forum, the Economic and Social Council could be encouraged to deepen its dialogue with the Bretton Woods institutions and WTO. The Council could encourage the United Nations system to develop integrated policy responses and a set of mutually reinforcing actions to address globalization, with a view to strengthening efforts to achieve the outcome of the major United Nations conferences and the goals set during the Millennium Assembly. The high-level meetings of the Economic and Social Council with the Bretton Woods institutions should continue to be used as an important opportunity for policy makers to address the task of ensuring coherence in policies for financial, macroeconomic and development cooperation and for the airing of new ideas and initiatives.

67. In this context, the Economic and Social Council could be encouraged to explore the feasibility of spearheading the work of several organizations of the United Nations system and WTO in the Integrated Framework for Trade-related Technical Assistance for the least developed countries, created to increase the effectiveness and efficiency of such assistance in part by strengthening coordination among participating agencies. The Council could also be invited to explore ways of broadening this assistance by raising awareness and sharing experience as regards interlinkages with other issues, such as knowledge, technology, finance and investment.

68. To build the capacity in developing countries and economies in transition to deal with the challenges of globalization calls for additional efforts by the international community in terms of financial resources and technical assistance. Support should be given to national efforts to strengthen programmes and projects for education, institutional capacity-building and development of human resources. Financial support provided through official development assistance should be concentrated on key areas, such as physical infrastructure, development of human resources and institutional and managerial capacity-building.

69. Governments need to foster an environment that enables the private sector of developing countries and economies in transition to be integrated more effectively into the globalization of economic activities. To this end, the key impediments in many developing countries need to be addressed, such as insufficient physical and legal infrastructure, an inadequate human resource base, weak financial systems and lack of access to technology. In this regard, the provision of technical and financial assistance by the international community and the active participation of the private sector are crucial in addressing structural deficiencies that hinder the ability of the developing countries to participate in the knowledge-based global economy.

70. The globalization of production by multinational corporations, the globalization of international finance, the globalization of information and the large-scale movements of people have not been matched by a corresponding reshaping of relevant institutions. The challenge we face is that institutional arrangements for economic governance have fallen far behind the realities of the growth and interdependence that are known as globalization. Global institutional structures could be usefully adapted and evolved in the functioning of financial markets, international capital flows, intellectual property and patent regimes, competition policy and bankruptcy law, taxation and trade policies, and regulation and supervision of banks and financial institutions. In each of these policies, an improvement in institutions would require better coordination and cooperation among global, regional, bilateral and national governance structures.

71. Given the nature of linkages and interdependence in the driving forces of globalization and its cumulative impact on growth and development, Governments need to cooperate in establishing fair and equitable trade, investment, technology and knowledge regimes. In this regard, ensuring greater participation of developing countries in the decision-making processes and institutions should be a key goal.

72. As coordination and cooperation is strengthened at the global level, it should be borne in mind that development strategies must be tailored to domestic and local conditions. Domestic resources and institutions must be strengthened and mobilized so as to ensure that a development strategy serves to advance the objectives and priorities of the national

development agenda and to enable a country-specific response to global trends and impacts.

73. There is an urgent need for a partnership encompassing the Governments of both developing and developed countries, international organizations, civil society and the private sector in order to ensure the adequate flow of resources, knowledge and technology to developing countries so that they can effectively address the underlying causes which stand as obstacles to sustainable development and poverty eradication. To enhance the design and implementation of development programmes and investment projects, lessons could be drawn from the experiences of regional partnerships among Governments, business communities and non-governmental organizations.

Notes

¹ United Nations publication, Sales No. E.01.II.C.1.

² See, for example, "The impact of the attacks in the United States on international tourism: an initial analysis", World Tourism Organization, 18 September 2001 (http://www.world-tourism.org/market_research/impact_attacks).

³ See *World Economic and Social Survey 2001* (United Nations publication, Sales No. E.01.II.C.7), part two.

⁴ In addition to contributions from a number of United Nations organizations and specialized agencies, their publications were extensively used in preparation of the present report (e.g., various issues of United Nations, *World Economic and Social Survey*; United Nations Conference on Trade and Development, *World Investment Report* and *Trade and Development Report*; and World Bank, *Global Economic Prospects* and *Global Development Finance*).

⁵ UNCTAD, *Trade and Development Report 2001* (United Nations publication, Sales No. E.00.II.D.10).

⁶ For more details, see *World Economic and Social Survey 2001*...

⁷ Further details are discussed in the report of the Task Force of the Executive Committee on Economic and Social Affairs of the United Nations, entitled "Towards a new international financial architecture".

⁸ IMF, *World Economic Outlook, October 2000*, chap I.



**General Assembly
Security Council**

Distr.: General
5 October 2001

Original: English

**General Assembly
Fifty-sixth session
Agenda item 166
Measures to eliminate international
terrorism**

**Security Council
Fifty-sixth year**

**Letter dated 5 October 2001 from the Permanent Representative
of Mongolia to the United Nations addressed to the
Secretary-General**

On instructions from my Government, I have the honour to forward herewith the text of a statement by the Ministry of Foreign Affairs of Mongolia issued on 4 October 2001 (see annex).

I should be most grateful if you would have the text of the present letter and its annex circulated as a document of the General Assembly, under agenda item 166, and of the Security Council.

(Signed) Jargalsaikhany **Enkhsaikhan**
Ambassador
Permanent Representative



Annex to the letter dated 5 October 2001 from the Permanent Representative of Mongolia to the United Nations addressed to the Secretary-General

Statement by the Ministry of Foreign Affairs of Mongolia

The Government of Mongolia has always stood firm against international terrorism and has resolutely condemned the brutal attacks on New York and Washington, D.C., since the day this crime was committed, considering these acts as crimes against freedom and democracy. Bearing in mind the grave nature of these acts, the Government of Mongolia issued a statement in which it proposed to convene an emergency special session of the General Assembly to address ways and means of combating international terrorism. The Government of Mongolia welcomes and supports the consolidation of efforts of the international community in the fight against international terrorism. The Ministry of Foreign Affairs of Mongolia has been entitled to announce the decision made by the State and Government of Mongolia to undertake the following measures.

1. The Government of Mongolia consistently supports the efforts to form an international coalition against terrorism. It stands ready to contribute to the coalition's activities through diplomatic, legal, financial, military and intelligence channels.
2. Mongolia will take, on its part, necessary measures to implement the provisions of Security Council resolutions 1267 (1999), 1333 (2000), 1368 (2001) and 1373 (2001), calling for consolidating the efforts of the world community in the fight against terrorism.
3. Mongolia will actively work and coordinate its activities with the countries of the international coalition within the framework of the United Nations and other international organizations in implementing the resolutions and decisions to be taken by the fifty-sixth session of the General Assembly aimed at intensifying the fight against terrorism.
4. Mongolia will cooperate with the countries requesting assistance in the combat against terrorism and undertake such legislative action as may be deemed necessary.

Ulaanbaatar

4 October 2001



General Assembly

Distr.: General
8 October 2001

Original: English

Fifty-sixth session

Agenda item 20 (c)

Strengthening of the coordination of humanitarian and disaster relief assistance of the United Nations, including special economic assistance: strengthening of international cooperation and coordination of efforts to study, mitigate and minimize the consequences of the Chernobyl disaster

Optimizing the international effort to study, mitigate and minimize the consequences of the Chernobyl disaster

Report of the Secretary-General*

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* The delay in submission was due to the need to incorporate in the report the findings of the situational analysis of the situation in the Chernobyl-affected areas of Belarus, the Russian Federation and Ukraine conducted in the summer/fall of 2001 under the auspices of UNDP, UNICEF and the Office for the Coordination of Humanitarian Affairs.



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I. Introduction

1. The present report is submitted pursuant to General Assembly resolution 54/97 of 8 December 1999 on strengthening of international cooperation and coordination of efforts to study, mitigate and minimize the consequences of the Chernobyl disaster, in which the Assembly requested the Secretary-General to submit to it, at the fifty-sixth session, a report containing a comprehensive assessment of the implementation of the resolution and proposals for innovative measures for optimizing the effectiveness of the response of the international community to the Chernobyl disaster. The report presents the activities of the funds, programmes and specialized agencies of the United Nations system undertaken in the past two years to optimize the international humanitarian response to the evolving consequences of the Chernobyl disaster.

2. In the 15 years since the accident, many assessments of the situation in and around Chernobyl and in the contaminated areas of Belarus, the Russian Federation and Ukraine have been undertaken and numerous scientific and applied scholarly works have appeared. Among them are such authoritative reports as the conclusions of the 1996 Vienna conference, "Ten Years After Chernobyl", sponsored by the International Atomic Energy Agency (IAEA), the World Health Organization (WHO), the European Commission and the then Department of Humanitarian Affairs; the 1996 scientific report on the pilot projects of the WHO International Programme on the Health Effects of the Chernobyl Accident (IPHECA) and of related national programmes; the 2000 study by the United Nations Scientific Committee on the Effects of Atomic Radiation on the medical effects of the accident at the Chernobyl power plant;¹ the proceedings of the Fifth Chernobyl Sasakawa Medical Cooperation Symposium, "Chernobyl: A Decade", held at Kiev in October 1996; the proceedings of the international conference "Fifteen Years after the Chernobyl Accident — Lessons Learned" held at Kiev on the fifteenth anniversary of the accident, as well as others.

3. The continuing complex of problems represented by the single word "Chernobyl" is nevertheless far from an exact science. The scientific data, as well as other information, indicate that this problem will long continue to reverberate in the affected areas. It is also most likely to have a growing effect on the health of the population in the affected areas of the three

countries. Alarmist tendencies and unfounded pessimism are just as unhelpful as groundless complacency. It would be incorrect to assume that with the closure of the nuclear power plant and generous funding by donors of a new shelter construction around the destroyed reactor, the international community can now close the file on the people that continue to live in the shadow of Chernobyl.

II. The situation fifteen years after the accident

4. Clearly, the accident at the Chernobyl nuclear power plant on 26 April 1986 continues to have significant and palpable consequences in the communities, regions and countries which felt the brunt of the atom that momentarily escaped human control 15 years ago. Despite the existing differences among experts over the exact nature and scope of these consequences, some current facts and figures help to grasp the extent of the situation at present in these countries.

5. In **Belarus**, 23 per cent of the territory was contaminated. Two million people were directly affected by the disaster, including over 135,000 people who were required to resettle outside of the contaminated areas. Approximately 1,650,000 inhabitants continue to live in contaminated areas, including 344,000 children. Over 25 per cent of the forests and vast areas of agricultural land are still contaminated. National reports indicate that incidents of thyroid cancer in children have increased in some areas more than 100-fold when compared with the period before the accident. Almost a fourth of the territory and practically every fifth citizen of Belarus has been affected by the disaster. The aftermath has seriously impeded the socio-economic development of the country. National authorities estimate that the overall economic cost of the accident will reach US\$ 260 billion over the 30-year period from 1986 to 2016. In 2000, the Government of Belarus was obliged to allocate 6.4 per cent of the national budget to measures aimed at mitigating the consequences of the Chernobyl accident.

6. In **Ukraine**, 3.5 million people were affected. One and a half million hectares of agricultural land and over 1 million hectares of forest were seriously

contaminated. A total of 2.3 million people are still living in contaminated areas, including over 500,000 children. The aggregate amount of economic loss to date is estimated at \$100 billion. Over the past decade, between 5 per cent and 7 per cent of the expenditures from the State budget of Ukraine, over \$6 billion, has been spent on addressing the consequences of the accident. The overall contaminated area comprises 53,500 square kilometres. The number of people evacuated and resettled stands at 162,000.

7. In the **Russian Federation**, over 2.7 million people were directly affected by the radiological hazard and 52,400 were relocated due to the threat of continued exposure within the affected areas. As many as 1.8 million people continue to live in contaminated areas, including 300,000 children. Two hundred thousand Russian emergency workers responded to the accident and its aftermath and as a result require continued monitoring to ensure proper treatment for the radiological effects. A total of 2.9 million hectares of agricultural land and about 1 million hectares of forest were heavily contaminated. The total contaminated area comprises 59,000 square kilometres.

Latest analysis of the situation

8. A multidisciplinary and international inter-agency mission to study the human consequences of Chernobyl 15 years after the accident was undertaken in the summer of 2001. It was deployed jointly by the United Nations Development Programme (UNDP) and the United Nations Children's Fund (UNICEF), with support from WHO, the United Nations Office for the Coordination of Humanitarian Affairs and others. The mission has prepared a fresh independent analysis of the current situation based on evaluations of the situation in the affected areas of Belarus, the Russian Federation and Ukraine, detailed discussions with community members, local and national officials, reviews of current reports, scientific papers, etc.

9. The mission considered the present interlinked issues of environmental contamination, health risks and economic decline that are directly related to the Chernobyl accident. On the basis of the best available data, the mission concluded that there was clear evidence of direct health effects due to exposure to radiation, including, for example, 2,000 cases to date of thyroid cancer caused by the accident. There is little scientific consensus on what the full effects will be and

many cancers are not expected to occur for several decades. The fears relating to future prospects were a major factor in creating the poor health situation that exists today in the affected communities. These psychological difficulties were amplified by the collapse of many of the community structures, leaving individuals and families isolated and without the means to improve their life.

10. As a result, while the level of radioactive contamination continues gradually to decline as a result of natural processes and active interventions, the conditions of life of a significant portion of the rural population continue inexorably to decline. These people are caught in a downward spiral of declining quality of life due to a complex interaction between environmental, health, psychosocial and economic disadvantages.

11. The 348,000 people whose lives were disrupted by compulsory resettlement continue to face significantly higher levels of stress than the general population, as do those involved in the post-accident clean-up and those who still live in contaminated areas. The families and communities concerned have become dependent on Chernobyl-related welfare payments, which in real terms are dwindling by the year.

12. The accident has imposed a heavy burden on the national budgets through the cost of clean-up, compensation and recovery. As noted above, enormous efforts have been made by the Governments of the three States concerned to address the effects of the Chernobyl accident. However, available resources are steadily declining. Foreign investment in the affected regions is virtually non-existent. Those with marketable skills are being drawn away, shattering families and further undermining social institutions. What started as a technological disaster has become a major socio-economic crisis, with far-reaching implications for present and future generations.

III. Ongoing international assistance efforts

13. In the two years that constitute the reporting period, the funds, programmes and agencies of the United Nations system continued to implement projects focused on the four critical areas of urgent need where the affected States require support. These are intended to complement those undertaken by national

authorities, the European Commission and other regional organizations, the International Federation of Red Cross and Red Crescent Societies (IFRC), civil society and other international and national partners. Due to a severe lack of resources, most United Nations programmes have been narrowed in scope and several programmes and projects have been discontinued. The projects that have survived are supported largely by extrabudgetary funds raised by the agencies, and some from the meagre resources of the Chernobyl Trust Fund.

A. Health

14. A limited number of studies are continuing in an effort to better understand the long-term effects of radiation exposure on the population. These efforts include individual dosimetry studies carried out by WHO and sponsored by the Institute of Radiological Protection in France.

15. Most of the limited medical resources available are focused on children and those young adults who were children at the time of the accident, since they are most vulnerable to the effects of radiation. This includes a programme to make use of health telematics in the treatment of those exposed to radiation. Particular attention is devoted to the diagnosis and treatment of thyroid carcinoma, leukaemia and lymphomas in children and teenagers. In addition, ultrasound screening of children and adults is also being conducted in the Russian Federation in cooperation with the Office for the Coordination of Humanitarian Affairs. The WHO telematics project is funded largely through private donations from the Sasakawa Memorial Health Foundation of Japan, which also supports the databanks projects for thyroid tissue and nucleic acids, along with the European Community and the National Cancer Institute of the United States of America. In total, \$2,176,000 was spent by WHO on these programmes and projects, out of which \$420,000 was raised from donors.

16. Among the major programmes that had to be abandoned due to lack of funds is the second phase of the IPHECA programme of WHO. This means that WHO will be unable to continue with crucially important assistance projects.

17. UNICEF is conducting a number of ongoing projects in the three most affected States in the context

of its country programmes. These efforts are directed for the most part through the regional office of UNICEF in Moscow. UNICEF has focused on encouraging the adoption of lifestyles and safety practices appropriate for living in areas contaminated with radiation, providing training for families with members stricken by Chernobyl-related diseases and educating parents on monitoring thyroid deficiency. These activities are reinforced with projects in schools, such as the School of Safety for Children in Ukraine.

18. Special projects of limited scope are directed at providing equipment for institutes and rehabilitation centres in the region that provide treatment for children who have been disabled by Chernobyl-related diseases. Over the past two years nearly \$300,000 has been devoted to these projects, with most funds coming from the German National Committee for UNICEF.

19. The International Federation of the Red Cross and Red Crescent Societies has been an integral part of the Inter-Agency Task Force on Chernobyl since its inception. More significantly, it was among the first international actors to respond to the emergency and maintains critical health-care support functions in the region. Current activities are conducted under the Chernobyl Humanitarian Assistance and Rehabilitation Programme (CHARP), which was initiated in 1990. This programme provides radiological screening using mobile diagnostic laboratories. This screening is the first line of defence against radiological illnesses that can be treated through early detection. Over 400,000 persons have been screened since the start of the programme and 90,000 were screened in 2000 at a cost of \$1.5 million per year.

B. Socio-psychological rehabilitation

20. The highly successful community-based psychological and social rehabilitation centres initiated by the United Nations Educational, Scientific and Cultural Organization (UNESCO) and established in 10 communities throughout the region are being extended to three additional communities in the Zhytomir and Kiev regions of Ukraine and in the Brest region of Belarus. The centres offer social and psychological support and counselling for people coping with both physical and stress-related consequences of contamination. The original 10 centres are now self-sustaining through their own donor efforts and funds provided by the respective Governments.

The new centres have been initiated with funds provided by the United States Agency for International Development (USAID).

C. Economic rehabilitation and employment

21. Among the most severely affected areas is the town of Slavutych in Ukraine, home to a large number of workers from the Chernobyl plant. The closing of the last reactor in 2001 has deepened unemployment. The International Labour Organization (ILO), which closely monitors the labour markets in the affected region, anticipated this situation and, using largely funds provided by the Government of Switzerland, expanded its vocational retraining programmes to help ease the impact. In a similar vein, ILO in concert with the Government of Ukraine initiated a nationwide training programme, assisted in the revision of labour disability policy and helped create a special training programme for the more than 86,000 persons with disabilities caused by the accident.

22. The United Nations Office for the Coordination of Humanitarian Affairs coordinated the implementation by local institutions of three projects in Belarus. These included the economic rehabilitation of a major poultry farm, the introduction of modern technologies and efficient management methods in fertilizer manufacturing, and expert advice on rehabilitation of a factory for the production of baby food.

23. The World Bank is actively involved in the efforts to rehabilitate the economies of the region and is currently developing a new country assistance strategy for Belarus for 2001-2004, with Chernobyl as a central theme.

D. Environmental protection

24. IAEA and the European Commission are leading efforts related to water quality evaluation, reduction of radionuclides in human food and environment, reduction of the external exposure doses in contaminated areas and support for the decommissioning of the Chernobyl nuclear power plant. Agreement was reached with the Government of Ukraine for the final decommissioning of the last reactor and the multi-billion-dollar effort to contain the

destroyed reactor is proceeding with funds provided by the international community through the European Bank for Reconstruction and Development.

25. IAEA has implemented new measures to improve environmental safety which include the introduction of measures to hasten the recovery of heavily contaminated areas. In addition, the Agency has been supportive of additional research into the aetiology of thyroid cancer and the harmonization of databases on exposed emergency workers in the three affected States. The work carried out by the Agency in the period 1999-2001 on such projects was funded from extrabudgetary contributions totalling \$620,000 from IAEA member States.

26. The Food and Agriculture Organization of the United Nations (FAO) continues to work to reduce the radiological impact on the population due to the consumption of contaminated foodstuffs. Among these efforts is a joint project with IAEA to extract edible oil from rapeseed grown in the contaminated area and reduce the caesium content in meat and dairy products through specialized diets for cattle. Success in these areas not only will improve domestic conditions, but could also pave the way for viable exports from the region.

27. UNDP has continued its project in the Russian Federation on water quality evaluation and water availability in contaminated areas in order to ensure a safe water supply in the affected Bryansk region. A new programme has also been started for the decontamination of the affected forests in the Russian Federation.

IV. Advocacy and public awareness

28. Public awareness of the consequences of the Chernobyl disaster was a central focus of United Nations activities throughout the reporting period, culminating in the series of events to commemorate the fifteenth anniversary of the disaster.

29. In April 2000, the Office for the Coordination of Humanitarian Affairs and UNDP organized an international press trip to Ukraine to attract world public attention to the plight of the Chernobyl victims. A brochure entitled "Chernobyl — a continuing catastrophe" was published in February 2000. Taking advantage of the Chernobyl Shelter Fund Pledging Conference in Berlin in July 2000, an advocacy

document on Chernobyl was presented at the conference. The Office and IFRC cooperated in sponsoring a photographic book *Chernobyl Legacy* which was published in April 2001 by de.MO publishing in New York and was presented at United Nations Headquarters in New York during the commemoration of the fifteenth anniversary. The publisher has pledged to donate 20 per cent of the proceeds from the sale of the book to the United Nations Chernobyl Trust Fund.

30. The fifteenth anniversary of the accident at the Chernobyl nuclear power plant was marked at United Nations Headquarters by the ceremonial ringing of the Peace Bell to honour those who fell victim to the accident. The Secretary-General issued a statement calling on the international community not to forget those who continue to suffer the consequences of the disaster.

31. With the generous support of the Government of Ireland and of the Permanent Missions of Belarus, the Russian Federation and Ukraine to the United Nations, the Office for the Coordination of Humanitarian Affairs and the Department of Public Information sponsored the photo exhibit "Black Wind/White Land: Living with Chernobyl", organized by the Irish charity Chernobyl Children's Project at United Nations Headquarters to mark the fifteenth anniversary of the accident. UNESCO produced a compelling exhibit of photographs and paintings entitled "Chernobyl, 15 years of tragedy", which was on display in Paris in April 2001. The Office for the Coordination of Humanitarian Affairs, in cooperation with the Permanent Missions of Belarus, the Russian Federation and Ukraine in the United Nations Office at Geneva organized an exhibition entitled "Legacy of Chernobyl" at the Palais des Nations.

V. Resource mobilization efforts

32. The efforts of the United Nations aimed at providing assistance to victims of the Chernobyl disaster continue to be plagued by a persistent lack of resources. In an attempt to enhance international funding, the United Nations Coordinator of International Cooperation on Chernobyl in March 2001 appealed to the Member States contributors to the Chernobyl Shelter Fund to support assistance programmes. The Coordinator called attention to the disparity between the resources allocated to remedying

the technical aspects of the disaster and those devoted to its human consequences. Donors were asked to direct a small portion of the amount contributed to technical assistance to addressing the outstanding humanitarian needs. The response, unfortunately, has been less than generous.

33. During the period 2000-2001, a total of \$446,000 in cash and \$600,000 in kind was mobilized for the United Nations Chernobyl Trust Fund. The Governments of Switzerland, the United States of America and Ireland made timely contributions and pledges. Significant private donations were received from Japan and two NGOs from Germany. While contributions fell well short of the needed funds, the continuity of some important programmes and projects was ensured.

34. A set of new focused projects aimed at providing developmental assistance to the affected communities and addressing the needs of the affected individuals has resulted from the recently concluded situational analysis of the areas most affected by Chernobyl. These projects are to be presented shortly to the international donor community for consideration.

VI. Optimizing the United Nations approach to Chernobyl

A. Policy shift from emergency response to developmental assistance

35. When Chernobyl was first brought to the United Nations in 1990, four years after the accident, the problem was already beyond the classical emergency response stage, although the emergency response aspect remained for a number of years due to the gravity of the situation. At the same time, the international response always comprised definite developmental programmes. During the current reporting period it became increasingly evident that the needs in the Chernobyl context had gradually passed the emergency response stage altogether and were increasingly of a developmental nature. In November 1999, the United Nations Coordinator of International Cooperation on Chernobyl called a meeting of the ministerial-level Quadripartite Committee for Coordination, expanded to include members of the United Nations Inter-Agency Task Force on Chernobyl and donors, in order to exchange views on the future of

the international Chernobyl effort. Further to that meeting, the Office for the Coordination of Humanitarian Affairs began a critical review of the strategy for Chernobyl in collaboration with its key stakeholders.

36. By the fall of 2000, a broad consensus had been built within the United Nations system regarding a change of direction. Recognizing the central role of rehabilitation and developmental programmes, emphasis was placed upon widening the role and involvement of UNDP, UNICEF and other developmental agencies members of the Inter-Agency Task Force on Chernobyl and on closer cooperation with the World Bank and other developmental partners. The Governments of Belarus, the Russian Federation and Ukraine supported the more pronounced developmental emphasis, as well as the need for continued advocacy of the problem in the General Assembly.

B. Streamlining international coordination mechanisms

37. In order to implement the shift in policy described in paragraphs 35 and 36 above and to support it with appropriate coordination structures, the Secretary-General decided to appoint the Assistant Administrator of UNDP and Regional Director for Europe and the Commonwealth of Independent States as Deputy United Nations Coordinator for Chernobyl. A general division of labour between the Office for the Coordination of Humanitarian Affairs as the Office of the United Nations Coordinator and UNDP as the Deputy Coordinator has been agreed to.

38. The UNDP Regional Director discharges his role of Deputy Coordinator in full consultation and coordination and under the overall guidance of the United Nations Coordinator of International Cooperation in Chernobyl. This new dimension and cooperative arrangement with UNDP have determined the structural changes in the machinery of the Office for the Coordination of Humanitarian Affairs which supports the Coordinator in his responsibilities in such a way as to maximize cooperation with UNDP and ensure smooth interaction between the Coordinator and his Deputy. To this end, the Chernobyl-related responsibilities have been relocated to the Office for the Coordination of Humanitarian Affairs in New York,

in order to bring them closer to the Coordinator and to facilitate cooperation with relevant UNDP staff.

VII. Concluding observations on the future direction of international efforts

39. The recent assessment mission to the affected areas has proposed a strategy for a new phase of activities to include a new set of initiatives focused on addressing the human needs of the affected individuals. The aim is to help to progressively restore life to normal for the majority of the inhabitants over a 10-year period.

40. The mission presented recommendations to national and international partners to advance in a new direction. In a significant shift from previous policies, an overarching development strategy is proposed, as well as projects focused on affected communities. Renewed emphasis will be placed on sustainable household incomes, community-based primary health care and environmental education. The recommendations aim to encourage collaboration between the international community and the various interested parties to ensure that resources are directed to those most in need while encouraging and enabling the majority to progress to a state of self-sufficiency. The goal, as far as possible, is to give people control over their own lives, and communities control over their own futures, in a context of sustainable economic and social development within the coming decade.

41. The essence of the strategy is to build on the community programmes and projects put into place by the States and civil society. Economic development will seek to support the revitalization of traditional industries and adapt them to the environment, while seeking to nurture innovative alternative means of stimulating investment and growth in the affected regions. Health care for the affected population will draw upon the past 15 years of experience and attempt to tailor programmes for the high-risk groups, including children, women, middle-aged men and the elderly. This strategy can only succeed if it is generously supported by Member States and the entire international community.

Notes

- ¹ *Official Records of the General Assembly Fifty-fifth Session, Supplement No. 46 (A/55/46), annex I; see also Sources and Effects of Ionizing Radiation: United Nations Scientific Committee on the Effects of Atomic Radiation — 2000 Report to the General Assembly with Scientific Annexes: Effects* (United Nations publication, Sales No. 00.IX.4), annex I.
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